

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Birmingham, Michigan</u>	County Oakland
Audit Date June 30, 2004	Opinion Date September 17, 2004	Date Accountant Report Submitted To State: December 16, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

Comprehensive Annual Financial Report of the City of Birmingham, Michigan as prepared by the Department of Finance

June 30, 2004

City Commission

Rackeline Hoff, Mayor
Scott Moore, Mayor Pro Tem
Donald F. Carney Jr., Commissioner
Thomas McDaniel, Commissioner
Dianne M. McKeon, Commissioner
Julie Plotnik, Commissioner
Gordon Thorsby, Commissioner

City Manager

Thomas M. Markus

Director of Finance

B. Sharon Ostin

City of Birmingham, Michigan

Contents

Introductory Section

Letter of Transmittal	i-vi
Certificate of Achievement	vii
Organizational Chart	viii

Financial Section

Report Letter	1-2
Management's Discussion and Analysis	3-11
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13-14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	15
Reconciliation of Fund Balances to the Statement of Net Assets	16
Statement of Revenue, Expenditures, and Changes in Fund Balances	17
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Proprietary Funds:	
Statement of Net Assets	19
Statement of Revenues, Expenses, and Changes in Net Assets	20
Statement of Cash Flows	21-22
Fiduciary Funds:	
Statement of Fiduciary Net Assets	23
Statement of Changes in Fiduciary Net Assets	24
Component Units:	
Statement of Net Assets	25
Statement of Activities	26-27
Notes to Financial Statements	28-51

City of Birmingham, Michigan

Contents (Continued)

Required Supplemental Information

Budgetary Comparison Schedule:	
General Fund	52
Major Streets Fund	53
Local Streets Fund	54
Pension Systems Schedule of Funding Progress	55
Note to Required Supplemental Information	56-57

Other Supplemental Information

Nonmajor Governmental Funds:	
Combining Balance Sheet	58
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	59-60
Budgetary Comparison Schedules	61-63
Internal Service Funds:	
Combining Statement of Net Assets	64
Combining Statement of Revenues, Expenses, and Changes in Net Assets	65
Combining Statement of Cash Flows	66
Fiduciary Funds:	
Combining Statement of Net Assets	67
Combining Statement of Changes in Net Assets	68

Statistical Section

General Governmental Expenditures by Function	69-72
General Governmental Revenues by Source	73-76
General Governmental Tax Revenues by Source	77
Property Tax Levies and Collections	78-79
Assessed Valuation History	80-81
Property Tax Rates - All Direct and Overlapping Governments	82-83
Principal Taxpayers	84
Special Assessment Billings and Collections	85
Computation of Legal Debt Margin	86
Ratio of Net General Obligation Bonded Debt to Assessed/Taxable Value and Net General Obligation Bonded Debt Per Capita	87-88

City of Birmingham, Michigan

Contents (Continued)

Statistical Section (Continued)

Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Governmental Expenditures	89
Computation of Direct and Overlapping Bonded Debt - General Obligation Bonds	90
Revenue Bond Coverage - Water Fund	91
Demographic Statistical Data	92
Property Value, Construction, and Bank Deposits	93
Miscellaneous Statistical Data	94

Introductory Section

November 17, 2004

To the Honorable Mayor and City Commission
City of Birmingham
Birmingham, Michigan 48012

With this letter, we transmit the City of Birmingham, Michigan's (the "City") Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. This report has been prepared pursuant to, and in compliance with state statutes which require the City to publish within six months of the close of each fiscal year a complete set of financial statements in compliance with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America.

The financial statements have been prepared by the City's finance department for the purpose of disclosing the City's financial condition to its residents, elected officials, and other interested parties. Management assumes full responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures.

The City's financial statements have been audited by Plante & Moran, PLLC. The purpose of an independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The audit concluded that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the year ended June 30, 2004 are fairly presented in conformity with GAAP. Plante & Moran's report is presented as the first component of the financial section of this report.

This letter is designed to introduce the financial report and provide information that would be useful in assessing the City's financial condition (particularly information about future resources and obligations). In addition, the financial statements include a narrative introduction, overview and analysis in the form of management's discussion and analysis (MD&A), which should be read in conjunction with this letter.

City Location and Character

The City of Birmingham, Michigan, incorporated in 1933, is located in the southeastern portion of Oakland County approximately 20 miles north of downtown Detroit. Covering only 4.73 square miles, the community is able to maintain the feel of a small town. The City was incorporated as a home-rule city and celebrated its 70th anniversary as such last year. The City operates under the Commission-Manager form of government. The seven commission members, one of whom serves as mayor, are elected for four-year overlapping terms on a nonpartisan basis. The City Commission is responsible, among other things, for passing ordinances, adopting the budget, and appointing advisory board and commission members. The city manager is responsible for carrying out the policies and ordinances of the City Commission and for overseeing the day-to-day operations of the City. The City Commission appoints the city manager and city clerk, who reports, as do all other department heads, to the city manager.

Throughout its history, Birmingham has enjoyed a high level of citizen involvement, which has contributed to the high quality of life in the community. Residents are elected or appointed to serve on a variety of commissions, committees, councils, and boards. Residents and officials alike volunteer their time and talent to support various projects to benefit the community.

Located in the heart of Oakland County, one of the wealthiest counties (per capita income) in the country, Birmingham is vibrant and prosperous and is the hub of the area. The City was named “best suburb,” for 2004 by *Hour* magazine. Its downtown is filled with shops, art and antique galleries, restaurants, and movie theaters, and is also a center for real estate, accounting, finance, insurance, legal, and other services. The City is a favorite destination for visitors throughout the metro area and offers one of the midwest’s premiere shopping districts. The City currently has in excess of 300 retailers and over 500 service enterprises. Named one of the country’s “top 20 most walkable communities,” the City provides residents with a quality lifestyle including beautiful residential neighborhoods, excellent schools, and all the social and cultural opportunities that come with a thriving pedestrian-friendly downtown. The Birmingham principal shopping district, established in 1993, provides leadership in marketing, advertising and promotion of the downtown.

The City provides a wide range of City services, including police and fire protection, the construction and maintenance of roads and other infrastructure, recreational activities and cultural events, community planning, zoning and code enforcement, refuse collection, water-receiving, and sewage disposal services. Birmingham is also within commuting distance of the major employment areas of the greater Detroit metropolitan area. Located within the City are the Rouge River, Quarton Lake and rolling landscape, which attract builders and homeowners.

Factors Affecting Financial Condition

The information presented in the financial statements is best understood when it is considered from the broader perspective of the environment in which the City operates.

Local Economy - The largest single revenue source is property taxes. Historically, this revenue source has been stable and is expected to remain so into the foreseeable future. The City also continues to have a strong, diversified tax base as the 10 largest taxpayers represent approximately 6.2 percent of total taxable valuation. A total of 73.5 percent of the City's assessed value is residential. The remaining 26.5 percent is nonresidential, composed of 23.3 percent commercial, 0.75 percent industrial, and 2.47 percent personal property. The City is approximately 98 percent developed. As a result of significant reinvestment in the City's residential and commercial districts, the City has experienced a 6.7 percent annual growth rate in the property tax base since fiscal 1999.

The region, which includes the City of Birmingham and some of the nation's most affluent suburbs, has a labor force of approximately 683,375. The June 2004 unemployment rate of 2.9 percent for the City is well below the state and national unemployment rates of 6.5 percent and 5.6 percent, respectively, for the same period. Suburban Oakland County, where Birmingham is located, is Michigan's chief economic engine and is growing in line with the country's recovery. It is anticipated that this area will add about 32,000 jobs through 2005. This represents about one fourth of the total jobs expected to be gained state wide. The City continues to attract businesses of national and international importance. The overall estimated retail occupancy rate of 94.9 percent increased from 89 percent in the prior year as a result of independent retailers continuing to open new businesses such as high-end fashion and gift stores within the City.

The state continues to experience declining tax revenues and increasing state costs. It is not expected that the state economy will grow enough over the next few years to close the gap and the state will continue to lag behind other states in new jobs and income. As a result, the state continues to retain a higher portion of the sales tax it collects to balance its own budget. This has resulted in a decrease in state-shared revenues from sales tax collections that the state distributes and shares with local units of government. Approximately 8 percent of the City's total general fund revenues come from this source.

The City has maintained a strong financial position as a result of significant gains in property tax receipts, which are generated by the continued strength of the local economy. The strong financial position is also attributable to continued good financial performance, maintenance of fund balance levels, and continued prudent management of the City's operations.

Accounting and Budgetary Control

The City's comprehensive internal-controls framework has been designed to protect the City's assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation of financial statements in conformity with GAAP. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that the financial statements will be free from material misstatement.

The annual budget serves as the primary financial management tool for the City. From November to February, the city manager and department heads develop and review departmental and activity budgets. At the “long-range planning session” in January, the City Commission gives feedback and communicates its priorities and the direction in which it wishes to proceed. At this meeting, a “five-year financial forecast” is also presented and serves as the framework from which the budget is developed. The city manager, also in a public forum on or before the first Monday in May, presents the proposed budget in line-item detail to the City Commission for review and approval.

The City of Birmingham’s budget is a plan that represents the City Commission’s commitment to provide cost-effective, efficient, and quality services to its residents. The annual budget is adopted in accordance with legal requirements governed by Chapter 7 of Birmingham’s City Charter and the Uniform Budgeting Act, State of Michigan, P.A. 621 of 1978. The City adopts its budget by budgetary center, which is the level of classification detail at which, by law, expenditures cannot exceed appropriations. Budget transfers between budgetary centers or from fund balance are approved by the City Commission periodically.

The General Fund, Special Revenue Funds, and Debt Service Funds are under formal budgetary control. Unexpended appropriations lapse at year end, while open purchase orders and contract encumbrances are immediately reappropriated to the subsequent fiscal year.

Long-term Financial Planning - Because the City is at a mature stage in its life cycle, it has significant infrastructure needs that have not been present historically. Several years ago, the City determined that meeting these infrastructure needs would be the most significant financial challenge over the next several years. In fiscal year 1999-2000, a 10-year sewer-improvement program with an estimated cost of \$32 million was begun to abate basement flooding, construct relief sewers, and repair or replace existing sewers in critical structural condition. Of the \$32 million, \$11.8 million has been earmarked for joint sewer relief projects with other communities - the North Arm Project for the Twelve Towns Drain, the George W. Kuhn Drain Project, and the Acacia Park Relief Drain.

The City of Birmingham is in the eleventh year of a \$15 million multi-year program for watermain construction and restoration. Improvements totaling \$3 million have been incurred and were financed with revenue bonds issued in 1993. The remaining \$12 million is supported through a voter-approved property tax levy. The levy, which began in fiscal year 1997-1998, will continue at the estimated annual rate of \$1 million.

In November 2001, City voters authorized the City of Birmingham to issue general-obligation unlimited tax bonds in an amount not to exceed \$25 million. The bonds may be sold in one or more issues. The proceeds from the bond sales are being used to implement the recreation master plan. The master plan outlines the City's long-range goals for the acquisition and/or enhancement of parkland and recreational facilities. The first bond issue in the amount of \$15.7 million was sold in December 2002 and a portion of the proceeds was used to purchase the Barnum Facility and to partially fund the dredging of Quarton Lake and the rehabilitation of the dam. Quarton Lake park improvements are also being funded by the bond proceeds. A study is being performed to determine the best use of the Barnum Facility, with consideration being given to additional ongoing costs involved with staffing, operating, and maintaining the new facility.

Cash Management Policies and Practices - Temporarily idle cash from the City's various funds is invested through management of a common pooled cash and investment account. Investment maturities are timed to meet the City's general liquidity needs. Investment instruments generally consisted of U.S. Treasury bills and notes, U.S. Treasury stripped coupons, certificates of deposit, and state-approved pooled investment funds. Yields on investments ranged from .799 percent to 3.104 percent during 2004. Total interest income generated amounted to \$723,551.73 (excluding Pension Trust Fund earnings and earnings on funds not directly managed by the City).

Risk Management - The City is a member of the Michigan Municipal League Liability and Property Pool, which is a self-insurance program for general and auto liability, auto physical damage, and property loss claims. The City accounts for its insurance and self-insurance program in an Internal Service Fund and charges out to other funds their respective share of insurance costs. Additional information on the City of Birmingham's risk-management activity can be found in Note 9 of the notes to the financial statements.

Pension and Other Postemployment Benefits - The City of Birmingham Employees' Retirement System is a single-employer defined benefit pension plan, which covers all full-time employees of the City. Required contributions are determined as a part of an annual actuarial valuation. As of June 30, 2003, the ratio of present assets to actuarial accrued liabilities was 130.8 percent. The City of Birmingham also provides postretirement health care benefits for certain retirees and their dependents. As of the end of the current fiscal year, there were 158 retired employees and beneficiaries receiving these benefits, which are advance-funded by employer contributions expressed as a percentage of annual covered payroll at actuarially-determined rates. Additional information pertaining to the City's pension and postemployment benefits can be found in Notes 10 and 11 of the notes to the financial statements.

Awards and Acknowledgements

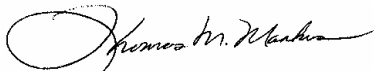
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Birmingham for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. This was the fourteenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily-readable and efficiently-organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City has also received the GFOA's Award for Distinguished Budget Presentation for its annual budget for the fiscal year beginning July 1, 2003. This was the fourteenth consecutive year that the City has received this prestigious award. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of this report was made possible by the dedicated service of the entire staff of the finance department. Each of these individuals has our sincere appreciation for the contributions made in the preparation of this report, as well as all additional individuals who assisted in this effort. Appreciation is also expressed to the City Commission for their consistent support throughout the year in matters pertaining to the financial affairs of the City.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas M. Markus".

Thomas M. Markus
City Manager

A handwritten signature in black ink, appearing to read "B. Sharon Ostin".

B. Sharon Ostin
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Birmingham,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

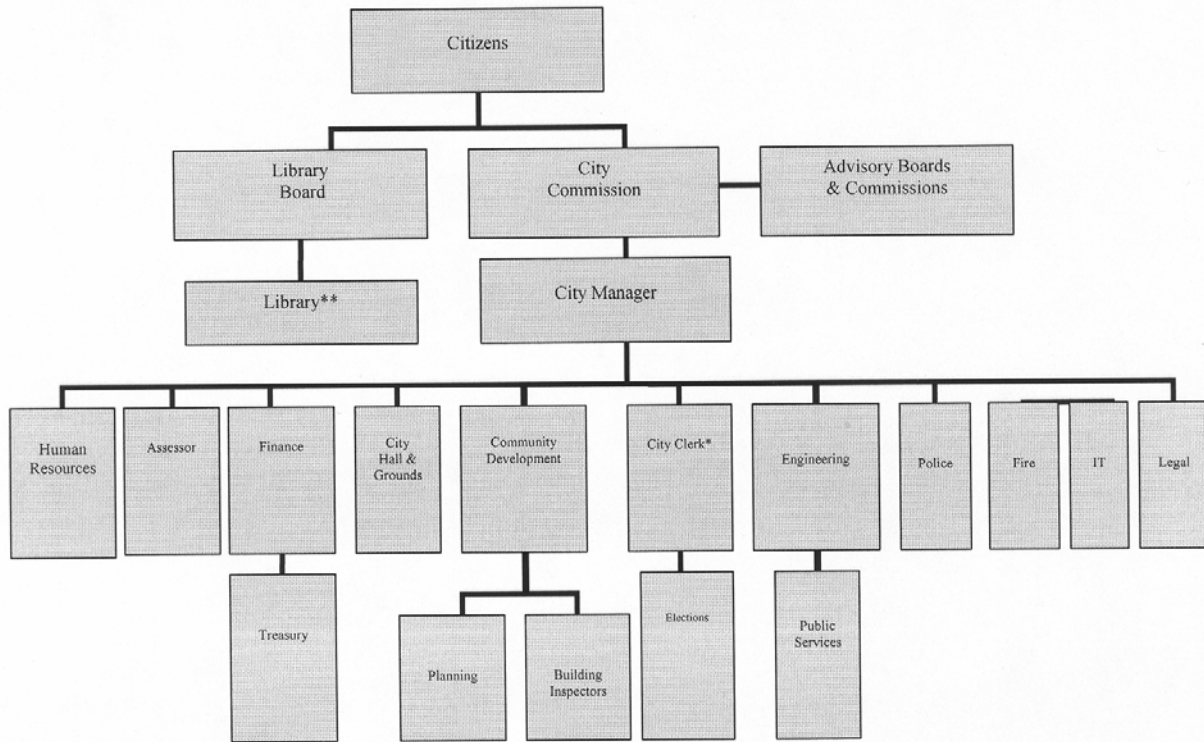


President

Executive Director

Birmingham

2004-2005 Organization Chart



* Appointed by the City Commission; reports to the City Manager.

* * The City shall provide tax levy of not less than $\frac{1}{2}$ mill and not more than $1 \frac{3}{4}$ mills.

Financial Section



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Honorable Mayor
and City Commission
City of Birmingham, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Birmingham, Michigan (the "City") as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Birmingham, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Birmingham, Michigan as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor
and City Commission
City of Birmingham, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The management's discussion and analysis, pension systems schedule of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedules and other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis and pension systems schedule of funding progress, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Plante & Moran, PLLC

September 17, 2004

Management's Discussion and Analysis

City of Birmingham, Michigan

Management's Discussion and Analysis

The City of Birmingham, Michigan's (the "City") management discussion and analysis (MD&A) is designed to provide an objective and easy-to-read analysis of the City's financial activities based on current information and facts. The MD&A is intended to serve as an introduction to the City's basic financial statements. Specifically, this information is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position (its ability to address the next and subsequent years' challenges), identify significant variances from the approved budget, and identify individual fund issues.

The information contained within this MD&A is only a component of the entire financial statements. Readers are encouraged to read it in conjunction with the transmittal letter, which can be found on pages i-vi of this report and the City's financial statements, which follow this section.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- The City's total revenues were \$42.9 million, while expenditures totaled \$36.4 million.
 - ◊ Governmental activities generated \$27.8 million in revenue and \$23.1 million in expenditures.
 - ◊ Business-type activities generated \$15.1 million in revenue and \$13.2 million in expenses.
- Total net assets of the City exceeded its liabilities by \$111 million this year.
 - ◊ Total net assets related to the City's governmental activities increased by approximately \$4.7 million, with \$3.9 million of that amount invested in capital assets.
 - ◊ Net assets of our business-type activities increased overall by \$1.9 million. Of this amount, \$2.4 million was invested in capital assets, with a reduction in unrestricted assets totaling \$500,000.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$5.3 million, or 23.6 percent of total General Fund expenditures and transfers out.
- In July 2003, the City sold \$9 million in general obligation refunding bonds to refund a portion of the City's outstanding 1993 facility bonds. The refunding of the 1993 bonds resulted in approximately \$900,000 in savings.

Overview of the Financial Statements

In addition to the MD&A (this section), the City's annual report consists of three other parts: (1) basic financial statements, (2) required supplementary information, and (3) an optional section that presents combining statements for nonmajor governmental, enterprise, internal service, and fiduciary funds. The basic financial statements include two kinds of statements that present different views of the City:

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

Government-wide Financial Statements - These statements provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the City's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide financial statements and include the following:

- The statement of net assets presents information pertaining to all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The statement of activities accounts for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Birmingham that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City include water and sewer-disposal systems, automobile parking, and municipal golf courses.

The government-wide financial statements include not only the City of Birmingham itself (known as the primary government), but also the legally separate Baldwin Public Library and the Principal Shopping District, for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

Fund Financial Statements - The remaining statements are fund financial statements. The City of Birmingham, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the City's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year. The City's three fund financial statements include the following:

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds statements tell how general government services like public safety were financed in the short term as well as what remains for future spending. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

Proprietary Funds - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, offer short- and long-term financial information.

- In fact, the City's Enterprise Funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- The City also utilizes Internal Service Funds (the other kind of proprietary fund) to report activities that provide supplies and services to the City's other programs and activities, such as the City's Equipment Fund. Because these services predominantly benefit governmental rather than business-type functions, they have been included with governmental activities in the government-wide financial statements.

Fiduciary Funds - Fiduciary funds provide information about resources held for the benefit of parties outside the government - such as the retirement plan for the City's employees - in which the City acts solely as a trustee or agent. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

Notes to the Financial Statements - The financial statements also include notes that provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information. This information includes budgetary comparisons for the City's General Fund and Major Special Revenue Funds. It also includes combining statements for the City's nonmajor governmental funds, Internal Service Funds, and fiduciary funds. Immediately following the supplemental information is a statistical section, which provides certain information pertaining to general government revenues, expenditures, tax revenues and collections, demographic, and other statistical data.

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

Financial Analysis of the City as a Whole

Net Assets - As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Birmingham, combined net assets increased 6.3 percent from last year to \$111 million (see Table A-1). The following table shows, in a condensed format, the net assets of the City as of June 30, 2003 and 2004:

Table A-1
City of Birmingham's Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2003-2004
	2003	2004	2003	2004	2003	2004	
Current and other assets	\$31.2	\$32.5	\$28.1	\$23.9	\$ 59.3	\$ 56.4	-5.1%
Capital assets	<u>50.2</u>	<u>53.5</u>	<u>67.8</u>	<u>70.3</u>	<u>118.0</u>	<u>123.8</u>	4.9%
Total assets	81.4	86.0	95.9	94.2	177.3	180.2	2.5%
Current liabilities	4.2	4.6	6.5	5.6	10.7	10.2	-4.7%
Long-term liabilities	<u>21.1</u>	<u>20.6</u>	<u>41.1</u>	<u>38.4</u>	<u>62.2</u>	<u>59.0</u>	-5.1%
Total liabilities	25.3	25.2	47.6	44.0	72.9	69.2	-5.1%
Net assets:							
Invested in capital assets - Net of related debt	34.8	38.6	28.5	31.0	63.3	69.6	10.0%
Restricted	5.4	5.0	-	-	5.4	5.0	-7.4%
Unrestricted	<u>15.9</u>	<u>17.2</u>	<u>19.8</u>	<u>19.2</u>	<u>35.7</u>	<u>36.4</u>	2.0%
Total net assets	<u>\$56.1</u>	<u>\$60.8</u>	<u>\$48.3</u>	<u>\$50.2</u>	<u>\$104.4</u>	<u>\$111.0</u>	6.3%

Over 62 percent of the City's total net assets, less any related debt used to acquire those assets that are still outstanding, reflect its investment in capital. The City's net assets related to governmental activities increased \$4.7 million, or 8.4 percent, and net assets related to business-type activities increased \$1.9 million, or 3.9 percent, over the 2003 fiscal year. The City has undertaken several major capital improvement projects. The \$15.7 million park and recreation improvements (governmental activities) and the \$32 million 10-year sewer improvement and \$15 million water water-main programs (business-type activities) have resulted in these increases. The City uses capital assets to provide services to citizens; accordingly, these assets are not available for future spending.

Restricted net assets of the City totaled \$5.0 million at June 30, 2004 and decreased by 7 percent for the year. These net assets are reported in governmental activities and have limits on their use that are externally imposed by restrictions such as enabling legislation or bond covenants. These resources can only be used for the specific purposes for which they were intended, such as expenditures for major and local streets, building operations, or debt-service activities. The remaining unrestricted net assets may be used to meet the City's ongoing operations. Unrestricted net assets related to governmental activities increased by \$1.3 million or 8.2 percent.

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

Changes in Net Assets - The City's combined total revenue increased \$.9 million, or 2.1 percent, from 2003 to 2004 as shown in Table A-2. The City's revenue comes from two major sources: property taxes and charges for services. Approximately half of the City's total revenue comes from property taxes (47.4 percent in 2003 and 51.5 percent in 2004). Charges for services represented 39.1 percent of the total revenue in 2003 and 37.8 percent in 2004. The balance of the revenue is derived mainly from state and federal sources.

The City's combined total expenses increased \$1.8 million, or 5.2 percent, from 2003 to 2004. The City's expenses cover a wide range of services, with public safety and public works representing approximately 40 percent of total expenses. For both fiscal years, the City had revenue in excess of expenses for both governmental and business-type activities.

Table A-2 below and the narrative that follows consider the operations of governmental and business-type activities separately.

Table A-2
Changes in City of Birmingham's Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2003-2004
	2003	2004	2003	2004	2003	2004	
<u>Revenues</u>							
Program revenue:							
Charges for services	\$ 4.6	\$ 4.6	\$11.8	\$11.6	\$ 16.4	\$ 16.2	-1.2%
Operating grants and contributions	1.3	.3	-	-	1.3	.3	-76.9%
Capital grants and contributions	1.5	.6	.2	.1	1.7	.7	-58.8%
General revenue:							
Property taxes	15.9	18.9	4.0	3.2	19.9	22.1	11.1%
State-shared revenue	2.0	3.0	-	-	2.0	3.0	50.0%
Unrestricted investment earnings	.4	.4	.3	.2	.7	.6	-14.3%
Total revenue	25.7	27.8	16.3	15.1	42.0	42.9	2.1%
<u>Program Expenses</u>							
General government	3.0	4.2	-	-	3.0	4.2	40.0%
Public safety	9.3	9.6	-	-	9.3	9.6	3.2%
Public works	5.0	5.4	-	-	5.0	5.4	8.0%
Community and economic development	1.4	1.6	-	-	1.4	1.6	14.3%
Recreation and culture	1.2	1.4	-	-	1.2	1.4	16.7%
Interest on long-term debt	.7	.9	-	-	.7	.9	28.6%
Water and sewer	-	-	9.8	9.0	9.8	9.0	-8.2%
Parking	-	-	3.1	3.2	3.1	3.2	3.2%
Golf Courses	-	-	1.0	1.0	1.0	1.0	-
Total expenses	20.6	23.1	13.9	13.2	34.5	36.3	5.2%
Revenue in excess of expenses before transfers	5.1	4.7	2.4	1.9	7.5	6.6	-12.0%
Transfers	.1	-	-.1	-	-	-	-
Increase in net assets	5.2	4.7	2.3	1.9	7.5	6.6	-12.0%
Net assets, beginning of year	<u>50.9</u>	<u>56.1</u>	<u>46.0</u>	<u>48.3</u>	<u>96.9</u>	<u>104.4</u>	7.7%
Net assets, end of year	<u>\$56.1</u>	<u>\$60.8</u>	<u>\$48.3</u>	<u>\$50.2</u>	<u>\$104.4</u>	<u>\$111.0</u>	6.3%

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities - Total revenue for governmental activities increased \$2.1 million, or 8.2 percent. The increase is the result of an increase in property taxes of \$3 million. The increase in property taxes is attributable to restoration improvements for the Quarton Lake Dam (\$1.1 million), debt-service on the 2002 parks and recreation bond issue (\$.9 million), and an increase in solid waste disposal costs (\$.2 million). The remaining increase in property taxes is the result of property value growth within the community. The increase of \$1 million in state-shared revenue is the result of a change in classification for state gas and weight tax revenue. In 2003, this revenue source was recorded in "operating grants and contributions." The decrease of \$.9 million in capital grants and contributions is the result of a one-time federal grant for dredging at Quarton Lake.

Total expenses increased \$2.5 million, or 12.1 percent. Most of the increase in expenses was in general government which increased \$1.2 million, or 40.0 percent. The increase was the result of an increase in legal costs of \$.2 million from 2003 and a \$.8 million payment from the sewage disposal system for sewage back-up claims from previous years. This payment was netted against general government expenses in 2003, causing expenses in that year to be lower than they would have been otherwise. Public works increased \$.4 million, or 8.0 percent. The increase is attributable to higher refuse disposal costs and depreciation. Depreciation costs rose as a result of \$2.4 million in street and sidewalks improvements in the current year.

Business-type Activities - Total revenue for business-type activities decreased \$1.2 million, or 7.8 percent. Most of the decrease was the result of lower property tax revenue (\$.8 million). The decrease in property tax revenue is the result of shifting property taxes collected for the water-main improvement program in 2004 to the Quarton Lake Dam restoration project. This was a one-time revenue shift in order to avoid property tax increases for this improvement.

Total expenses for business-type activities decreased \$.7 million, or 5.0 percent. The decrease in expenses is attributable to water and sewer operations. The decrease in expenses is attributable to the payment in 2003 of \$.8 million for previous years' sewage back-up claims. This had the effect of increasing expenses in 2003 higher than they would have been otherwise.

Financial Analysis of the City's Funds

Governmental Funds - The analysis of the City's major funds begins on page 15, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. As noted earlier, the City of Birmingham uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements as well as to show accountability for certain activities, such as special property tax millages. The City has 10 governmental funds, categorized into four fund types. Based on criteria set forth by the Governmental Accounting Standards Board, the City's major funds for fiscal year 2003-2004 include the General Fund, Major Streets Fund, Local Streets Funds, and the Capital Projects Fund.

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

As of June 30, 2004, the governmental funds of the City of Birmingham reported a combined fund balance of \$20.7 million, the same as the prior year. Of this amount, \$5.3 million represents unreserved fund balance in the General Fund, which may be used to meet the City's ongoing obligations to citizens and creditors, without legal restriction.

Proprietary Funds - In addition to governmental funds, the City uses proprietary funds, which provide similar types of information as that contained in the government-wide financial statements, but in more detail. The Water and Sewage Disposal Funds, Automobile Parking System Fund, Municipal Golf Courses Fund, and Internal Service Funds make up the City's proprietary funds.

Unrestricted net assets for the Water and Sewage Disposal Funds, Automobile Parking System Fund, and Municipal Golf Courses Fund decreased \$.5 million, or 2.5 percent, primarily as a result of operating losses in the Water and Sewerage Disposal Funds. These two funds had losses due to lower than expected consumption as a result of higher than normal rainfall in the spring and early summer. Unrestricted net assets of the Automobile Parking System Fund decreased \$.4 million, or 9.3 percent, to \$3.9 million. The decrease was the result of capital improvements made to the parking decks throughout the City.

General Fund Budgetary Highlights

Actual revenues for the year ended June 30, 2004 exceeded the amended budget by \$414,715, or 1.8 percent. This was primarily attributable to building activity performing better than expected, an increase in cable franchise revenues, and state-shared revenue receipts being better than anticipated. City departments overall stayed below budget, resulting in total expenditures lower than budget by \$791,074. The additional revenues received, combined with better than expected performance by departments, resulted in an increase to the General Fund's fund balance of \$1,205,789.

Differences between original budgeted expenditures and the final amended budget were minimal. Significant budget changes to revenues included a reduction of \$260,000 to fines and forfeitures as a result of anticipated lower revenue from the 48th District Court, resulting from a declining caseload arising from the City. The interest and rent budget was reduced by \$250,000 as a result of lower than anticipated earnings on the City's investments. In addition, the other revenue category budget was reduced by \$271,570 as a result of an improvement project being delayed, which is to be reimbursed by a builder.

Capital Asset and Debt Administration

Capital Assets

The City of Birmingham had a total of \$123.8 million invested in capital assets (net of accumulated depreciation) at the end of the fiscal year (see table A-3). This was a net increase of 4.8 percent over last year. The City's investment in capital assets includes land, buildings, water and sewer lines, roads, highways and bridges, park facilities, and machinery and equipment.

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

Table A-3
City of Birmingham Capital Assets
(net of depreciation - in millions)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2003	2004	2003	2004	2003	2004	2003-2004
Land	7.6	7.6	1.6	1.6	9.2	9.2	-
Buildings and improvements	19.6	20.4	18.2	18.0	37.8	38.4	1.6%
Equipment	3.4	3.0	.4	.3	3.8	3.3	-13.2%
Infrastructure	16.9	18.5	40.3	42.8	57.2	61.3	7.2%
Construction in progress	<u>2.8</u>	<u>4.0</u>	<u>7.3</u>	<u>7.6</u>	<u>10.1</u>	<u>11.6</u>	14.9%
Total	50.3	53.5	67.8	70.3	118.1	123.8	4.8%

Governmental capital assets increased \$3.2 million, or 6.4 percent, over last year. Most of the increase (\$1.7 million) is the result of park and recreation improvements as a result of a \$15.7 million bond issue. The other portion of the increase is road improvements (\$1.6 million). Business-type capital assets increased \$2.5 million, or 3.7 percent, over last year. Major capital additions include \$2.5 million in sewer improvements and \$1.0 million in watermain improvements.

Long-term Debt - The City's total indebtedness as of June 30, 2004 is \$61.8 million. Of this amount, \$35.7 million is general obligation bonds, which is an amount considerably below the debt limit of \$245.4 million. In addition, the City has contractual obligations totaling \$26.2 million. This amount represents the City's portion of Oakland County bonds related to three CSO abatement projects, the George W. Kuhn retention/treatment facility, and the North Arm Project.

During the year, the City also refinanced some of its existing debt to take advantage of favorable interest rates. The refinancing is expected to decrease future debt service payments by approximately \$.9 million.

The City of Birmingham maintains a "AAA" rating from Standard & Poor's and Fitch and an "Aa1" rating from Moody's for general obligation debt. Additional information on the City's long-term debt can be found in Note 6 on pages 44 and 45 of this report.

Economic Factors and Next Year's Budgets and Rates

Revenue constraints with increased costs combined to present a challenge in developing the fiscal year 2004-2005 budget. The weak economy had lasted longer than anyone expected and the State had not recovered from three years of weak performance. On the revenue side, a slow state economy was anticipated to result in further decreases in state-shared revenues (the City's third largest revenue source) with continued low investment income expected. On the expenditure side, costs were anticipated to continue to escalate for health care costs.

These negative economic factors were offset by expected strong building activity, which correlates to the continued increase in property tax revenue as a result of the increase in the property tax base.

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

During the fiscal year, the fund balance in the General Fund increased by \$1.2 million to \$6.3 million. The increase offset the prior two fiscal years' decline. Also, \$41,100 has been designated for subsequent year's expenditures. Fund balance will continue to be maintained at a minimum of 10 percent of the current year's expenditures established to provide for unforeseen emergencies. The approved total millage levy of 15.4270 mills, which includes the City's operating, refuse, library, and debt service levies, represents a decrease from the prior year's levy of 15.5738 mills. General Fund property tax revenue is estimated at \$16.8 million for 2004-2005.

Request for Information

This financial report is designed to provide a general overview of the City of Birmingham's finances to the City's citizens, customers, investors, creditors, and others who are interested in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Birmingham's finance department, P.O. Box 3001, Birmingham, MI 48012.

Basic Financial Statements

City of Birmingham, Michigan

Statement of Net Assets June 30, 2004

	Primary Government			Component
	Governmental	Business-type		Units
	Activities	Activities	Total	
Assets				
Cash and investments (Note 4)	\$ 24,308,431	\$ 19,488,979	\$ 43,797,410	\$ 1,884,100
Receivables - Net:				
Customers	337,798	2,266,624	2,604,422	-
Special assessments	561,589	146,384	707,973	94,505
Delinquent personal property taxes	64,679	-	64,679	-
Inventories	71,441	7,059	78,500	-
Prepaid costs and other assets	293,228	180,902	474,130	57,666
Due from other governmental units	1,119,693	-	1,119,693	44,085
Restricted assets (Note 7)	5,336,057	1,886,934	7,222,991	805,804
Capital assets - Net (Note 5):				
Assets subject to depreciation	41,946,308	61,130,309	103,076,617	2,740,744
Assets not subject to depreciation	11,629,620	9,152,761	20,782,381	95,500
Investment in joint venture - 48th District Court (Note 12)	398,181	-	398,181	-
Other	-	-	-	-
Total assets	86,067,025	94,259,952	180,326,977	5,722,404
Liabilities				
Accounts payable	2,110,477	1,828,775	3,939,252	95,467
Due to other governmental units	26,250	59,474	85,724	-
Accrued and other liabilities	1,078,864	951,722	2,030,586	158,209
Deferred revenue	49,792	-	49,792	-
Provision for uninsured losses and liabilities (Note 9)	124,943	-	124,943	-
Noncurrent liabilities (Note 6):				
Due within one year	1,265,957	2,812,310	4,078,267	-
Due in more than one year	20,591,799	38,392,490	58,984,289	-
Total liabilities	25,248,082	44,044,771	69,292,853	253,676
Net Assets				
Invested in capital assets - Net of related debt	38,281,985	30,993,052	69,275,037	2,836,244
Restricted:				
Major and Local Streets	3,269,800	-	3,269,800	-
Solid waste	857,571	-	857,571	-
Debt service	109,710	-	109,710	-
Law and drug enforcement	120,833	-	120,833	-
Construction code activities	630,725	-	630,725	-
Other	9,970	-	9,970	805,804
Unrestricted	17,538,349	19,222,129	36,760,478	1,826,680
Total net assets	\$ 60,818,943	\$ 50,215,181	\$ 111,034,124	\$ 5,468,728

City of Birmingham, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 4,274,062	\$ 166,262	\$ -	\$ -
Public safety	9,551,684	1,387,850	166,828	-
Public works	5,415,066	616,455	1,205,840	392,023
Community and economic development	1,570,097	1,597,551	53,525	-
Recreation and culture	1,447,417	838,634	27,351	233,959
Interest on long-term debt	871,144	-	10,462	-
Total governmental activities	23,129,470	4,606,752	1,464,006	625,982
Business-type activities:				
Water and sewer	9,047,703	6,927,714	-	64,014
Automobile parking	3,204,165	3,608,526	-	-
Golf courses	974,624	1,075,422	-	-
Total primary government	<u>\$ 36,355,962</u>	<u>\$ 16,218,414</u>	<u>\$ 1,464,006</u>	<u>\$ 689,996</u>
Component units:				
Baldwin Public Library	\$ 3,278,080	\$ 728,170	\$ -	\$ -
Principal shopping district	881,222	741,437	216,313	-
Total component units	<u>\$ 4,159,302</u>	<u>\$ 1,469,607</u>	<u>\$ 216,313</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (4,107,800)	\$ -	\$ (4,107,800)	\$ -
(7,997,006)	-	(7,997,006)	-
(3,200,748)	-	(3,200,748)	-
80,979	-	80,979	-
(347,473)	-	(347,473)	-
(860,682)	-	(860,682)	-
(16,432,730)	-	(16,432,730)	-
-	(2,055,975)	(2,055,975)	-
-	404,361	404,361	-
-	100,798	100,798	-
(16,432,730)	(1,550,816)	(17,983,546)	-
-	-	-	(2,549,910)
-	-	-	76,528
-	-	-	(2,473,382)
18,914,232	3,209,429	22,123,661	2,499,802
1,822,737	-	1,822,737	84,872
396,859	210,800	607,659	86,330
2,795	-	2,795	-
(21,876)	21,876	-	-
21,114,747	3,442,105	24,556,852	2,671,004
4,682,017	1,891,289	6,573,306	197,622
56,136,926	48,323,892	104,460,818	5,271,106
\$ 60,818,943	\$ 50,215,181	\$ 111,034,124	\$ 5,468,728

City of Birmingham, Michigan

Governmental Funds Balance Sheet June 30, 2004

	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and investments	\$ 6,806,666	\$ 2,623,063	\$ 809,958	\$ 5,319,158	\$ 1,235,554	\$ 16,794,399
Receivables - Net:						
Customers	598,445	141	11,369	61,472	629	672,056
Special assessments	25,143	-	470,098	66,348	-	561,589
Delinquent personal property taxes	205,299	-	-	-	-	205,299
Prepaid items and other assets	100,188	-	-	-	-	100,188
Due from other governmental units	774,286	144,188	60,631	98,248	42,340	1,119,693
Restricted assets (Note 7)	-	-	-	5,292,904	-	5,292,904
Inventories	-	50,981	20,392	-	-	71,373
Total assets	\$ 8,510,027	\$ 2,818,373	\$ 1,372,448	\$ 10,838,130	\$ 1,278,523	\$ 24,817,501
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 773,003	\$ 280,772	\$ 119,952	\$ 700,294	\$ 136,339	\$ 2,010,360
Due to other funds	-	19,545	-	6,705	-	26,250
Accrued and other liabilities	664,498	5,646	13,495	-	44,100	727,739
Deferred revenue	785,134	141	481,470	127,820	-	1,394,565
Total liabilities	2,222,635	306,104	614,917	834,819	180,439	4,158,914
Fund Balances						
Reserved for:						
Encumbrances	263,463	839,946	230,815	873,554	-	2,207,778
Law and drug enforcement programs	-	-	-	-	120,833	120,833
Construction code activities	630,725	-	-	-	-	630,725
Prepays and inventory	98,587	50,981	20,392	-	-	169,960
Highway and street projects	-	1,621,342	506,324	-	-	2,127,666
Facility and park improvement projects	-	-	-	5,292,904	-	5,292,904
Debt service	-	-	-	-	109,710	109,710
Unreserved - Reported in:						
General Fund	5,294,617	-	-	-	-	5,294,617
Special Revenue Funds	-	-	-	-	867,541	867,541
Capital Projects Funds	-	-	-	798,929	-	798,929
Designated (Note 8)	-	-	-	3,037,924	-	3,037,924
Total fund balances	6,287,392	2,512,269	757,531	10,003,311	1,098,084	20,658,587
Total liabilities and fund balances	\$ 8,510,027	\$ 2,818,373	\$ 1,372,448	\$ 10,838,130	\$ 1,278,523	\$ 24,817,501

City of Birmingham, Michigan

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets June 30, 2004

Fund Balance - Total Governmental Funds	\$ 20,658,587
--	---------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds	53,575,928
---	------------

Allowance for uncollectible personal property taxes	(140,620)
---	-----------

Special assessment, parking fines, and other miscellaneous receivables are expected to be collected over several years and are not available to pay for current year expenditures	1,249,008
---	-----------

Equity interest in 48th District Court is not reported in governmental funds	398,181
--	---------

Long-term liabilities are not due and payable in the current period and are not reported in the funds, including related accrued interest	(22,026,803)
---	--------------

Internal Service Funds are included as part of governmental activities, net of amounts included above as capital assets	<u>7,104,662</u>
---	------------------

Net Assets - Governmental Activities	<u>\$ 60,818,943</u>
---	-----------------------------

City of Birmingham, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Property taxes and special assessments	\$ 16,113,980	\$ 6,952	\$ 215,529	\$ 6,869	\$ 2,967,766	\$ 19,311,096
Licenses and permits	1,788,000	-	-	-	-	1,788,000
Federal grants	32,854	-	-	181,429	143,874	358,157
State sources	1,890,146	849,083	356,757	60,932	781	3,157,699
Charges for services	2,205,991	88,678	8,374	-	138,172	2,441,215
Fines and forfeitures	1,268,379	-	-	-	-	1,268,379
Use of money and property	174,808	30,470	27,832	108,332	18,755	360,197
Other	112,828	-	21,980	201,260	10,616	346,684
Total revenues	23,586,986	975,183	630,472	558,822	3,279,964	29,031,427
Expenditures						
Current:						
General government	4,781,522	-	-	-	-	4,781,522
Public safety	8,997,239	-	-	-	1,769	8,999,008
Public works	3,406,619	-	-	-	-	3,406,619
Highway and streets	-	1,071,106	1,197,830	-	-	2,268,936
Community and economic development	1,587,838	-	-	-	60,625	1,648,463
Solid waste disposal	-	-	-	-	1,519,664	1,519,664
Contributions	681,247	-	-	-	-	681,247
Capital outlay	-	859,313	1,004,370	2,317,285	-	4,180,968
Debt service	-	-	-	-	1,464,514	1,464,514
Total expenditures	19,454,465	1,930,419	2,202,200	2,317,285	3,046,572	28,950,941
Excess of Revenues Over (Under)						
Expenditures	4,132,521	(955,236)	(1,571,728)	(1,758,463)	233,392	80,486
Other Financing Sources (Uses)						
Transfers in	60,319	625,500	1,355,546	1,150,587	78,943	3,270,895
Transfers out	(2,967,963)	(205,546)	-	(68,943)	(50,319)	(3,292,771)
Bond issuance	-	-	-	5,130,000	-	5,130,000
Payments to bond escrow agent	-	-	-	(5,200,000)	-	(5,200,000)
Total other financing sources (uses)	(2,907,644)	419,954	1,355,546	1,011,644	28,624	(91,876)
Net Change in Fund Balance	1,224,877	(535,282)	(216,182)	(746,819)	262,016	(11,390)
Fund Balances - Beginning of year	5,062,515	3,047,551	973,713	10,750,130	836,068	20,669,977
Fund Balances - End of year	\$ 6,287,392	\$ 2,512,269	\$ 757,531	\$ 10,003,311	\$ 1,098,084	\$ 20,658,587

City of Birmingham, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (11,390)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation 3,451,084

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end 180,827

Accrued interest on long-term liabilities 43,361

Bond issuance is not reported as financing sources on the statement of activities (5,268,949)

Payments to bond escrow agent and bond principal are expenditures in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 5,749,995

Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities (75,047)

Governmental funds report proceeds from sale; in the statement of activities, only the respective gain or loss is recognized (37,306)

Internal Service Funds are also included as governmental activities 649,442

Change in Net Assets of Governmental Activities \$ 4,682,017

City of Birmingham, Michigan

Proprietary Funds Statement of Net Assets June 30, 2004

	Water Supply System Receiving	Sewage Disposal System	Automobile Parking System	Golf Courses (Other Nonmajor Enterprise Fund)	Total	Internal Service Funds
Assets						
Current assets:						
Cash and investments	\$ 5,750,312	\$ 9,208,338	\$ 4,268,218	\$ 262,111	\$ 19,488,979	\$ 7,514,032
Receivables - Net - Customers	840,336	1,474,546	96,842	1,284	2,413,008	925
Inventories	-	-	7,059	-	7,059	68
Total current assets	6,590,648	10,682,884	4,372,119	263,395	21,909,046	7,515,025
Noncurrent assets:						
Other assets	115	61,413	118,421	953	180,902	112,726
Restricted assets (Note 7)	-	1,886,934	-	-	1,886,934	43,153
Capital assets (Note 5)	9,404,060	40,850,929	18,612,589	1,415,492	70,283,070	2,698,580
Total noncurrent assets	9,404,175	42,799,276	18,731,010	1,416,445	72,350,906	2,854,459
Total assets	15,994,823	53,482,160	23,103,129	1,679,840	94,259,952	10,369,484
Liabilities						
Current liabilities:						
Accounts payable	424,357	1,115,722	265,697	22,999	1,828,775	57,778
Due to other fund	-	47,840	11,634	-	59,474	-
Provision for uninsured losses and liabilities (Note 9)	-	-	-	-	-	124,943
Accrued and other liabilities	132,766	493,133	299,054	26,769	951,722	383,521
Current portion of long-term debt and compensated absences (Note 6)	8,907	1,671,135	1,129,030	3,238	2,812,310	-
Total current liabilities	566,030	3,327,830	1,705,415	53,006	5,652,281	566,242
Noncurrent liabilities:						
Provision for compensated absences	1,825	-	9,006	842	11,673	-
Long-term debt - Net of current portion (Note 6)	-	35,580,817	2,800,000	-	38,380,817	-
Total noncurrent liabilities	1,825	35,580,817	2,809,006	842	38,392,490	-
Total liabilities	567,855	38,908,647	4,514,421	53,848	44,044,771	566,242
Net Assets						
Investment in capital assets - Net of related debt	9,404,060	5,485,911	14,683,559	1,415,492	30,989,022	2,698,580
Unrestricted	6,022,908	9,087,602	3,905,149	210,500	19,226,159	7,104,662
Total net assets	<u>\$ 15,426,968</u>	<u>\$ 14,573,513</u>	<u>\$ 18,588,708</u>	<u>\$ 1,625,992</u>	<u>\$ 50,215,181</u>	<u>\$ 9,803,242</u>

City of Birmingham, Michigan

Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Water Supply System Receiving	Sewage Disposal System	Automobile Parking System	Golf Courses (Other Nonmajor Enterprise Fund)	Total	Internal Service Funds
Operating Revenues						
Sale of water	\$ 2,642,535	\$ -	\$ -	\$ -	\$ 2,642,535	\$ -
Sewage disposal charges	-	4,312,115	-	-	4,312,115	-
Golf course fees and charges	-	-	-	1,075,422	1,075,422	-
Charges for services	-	-	-	-	-	5,316,943
Automobile parking system fees and charges	-	-	3,608,526	-	3,608,526	-
Total operating revenues	2,642,535	4,312,115	3,608,526	1,075,422	11,638,598	5,316,943
Operating Expenses						
Cost of water produced/purchased	1,203,988	-	-	-	1,203,988	-
Cost of sewage treatment	-	2,733,009	-	-	2,733,009	-
Operation and maintenance	1,207,599	599,011	2,062,648	670,219	4,539,477	1,171,761
General and administrative	101,953	261,910	139,313	268,899	772,075	2,818,420
Depreciation and amortization (Note 5)	361,642	970,008	859,162	35,506	2,226,318	779,778
Total operating expenses	2,875,182	4,563,938	3,061,123	974,624	11,474,867	4,769,959
Operating Income (Loss)	(232,647)	(251,823)	547,403	100,798	163,731	546,984
Nonoperating Revenue (Expenses)						
Investment income	66,475	122,041	43,334	8,658	240,508	76,466
Interest expense	-	(1,608,583)	(143,042)	-	(1,751,625)	-
Loss on disposal of assets	-	-	-	-	-	(23,494)
Property taxes	45,776	3,171,023	-	-	3,216,799	-
Total nonoperating revenue (expenses)	112,251	1,684,481	(99,708)	8,658	1,705,682	52,972
Income (Loss) - Before contributions and transfers	(120,396)	1,432,658	447,695	109,456	1,869,413	599,956
Capital Contributions	-	-	-	-	-	49,492
Transfers from (to) Other Funds	-	-	41,876	(20,000)	21,876	-
Change in Net Assets	(120,396)	1,432,658	489,571	89,456	1,891,289	649,448
Net Assets - Beginning of year	15,547,364	13,140,855	18,099,137	1,536,536	48,323,892	9,153,794
Net Assets - End of year	<u>\$ 15,426,968</u>	<u>\$ 14,573,513</u>	<u>\$ 18,588,708</u>	<u>\$ 1,625,992</u>	<u>\$ 50,215,181</u>	<u>\$ 9,803,242</u>

City of Birmingham, Michigan

Proprietary Fund Statement of Cash Flows Year Ended June 30, 2004

	Water Supply System Receiving	Sewage Disposal System	Automobile Parking System	Golf Courses (Other Nonmajor Enterprise Fund)	Total	Internal Service Funds
Cash Flows from Operating Activities						
Receipts from customers	\$ 2,647,455	\$ 4,571,992	\$ 3,538,645	\$ 1,074,138	\$ 11,832,230	\$ 5,295,539
Payments to suppliers	(1,901,898)	(3,978,166)	(2,199,940)	(391,224)	(8,471,228)	(3,650,422)
Payments to employees	(724,999)	(346,291)	(227,982)	(561,993)	(1,861,265)	(631,922)
Net cash provided by operating activities	20,558	247,535	1,110,723	120,921	1,499,737	1,013,195
Cash Flows from Noncapital Financing Activities - Operating transfers to/from other funds	-	-	41,876	(20,000)	21,876	-
Cash Flows from Capital and Related Financing Activities						
Contributed capital	-	-	-	-	-	49,492
Issuance of debt	-	1,256,199	3,925,000	-	5,181,199	-
Principal and interest paid on capital debt	-	(4,427,222)	(5,076,749)	-	(9,503,971)	-
Purchase of capital assets	(1,242,692)	(2,750,923)	(666,862)	(3,997)	(4,664,474)	(694,986)
Proceeds from sale of capital assets	-	-	-	-	-	76,642
Property taxes	45,776	3,171,023	-	-	3,216,799	-
Net cash used in capital and related financing activities	(1,196,916)	(2,750,923)	(1,818,611)	(3,997)	(5,770,447)	(568,852)
Cash Flows from Investing Activities - Interest received on investments	66,919	122,041	43,334	8,658	240,952	76,466
Net Increase (Decrease) in Cash and Cash Equivalents	(1,109,439)	(2,381,347)	(622,678)	105,582	(4,007,882)	520,809
Cash and Cash Equivalents - Beginning of year	6,859,751	8,931,356	4,890,896	156,529	20,838,532	7,036,376
Cash and Cash Equivalents - End of year	<u>\$ 5,750,312</u>	<u>\$ 6,550,009</u>	<u>\$ 4,268,218</u>	<u>\$ 262,111</u>	<u>\$ 16,830,650</u>	<u>\$ 7,557,185</u>
Balance Sheet Classification of Cash and Cash Equivalents						
Cash and investments	\$ 5,750,312	\$ 9,208,338	\$ 4,268,218	\$ 262,111	\$ 19,488,979	\$ 7,514,032
Restricted investments (Note 4)	-	1,886,934	-	-	1,886,934	43,153
Less amounts classified as investments (Note 1)	-	(4,545,263)	-	-	(4,545,263)	-
Total cash and cash equivalents	<u>\$ 5,750,312</u>	<u>\$ 6,550,009</u>	<u>\$ 4,268,218</u>	<u>\$ 262,111</u>	<u>\$ 16,830,650</u>	<u>\$ 7,557,185</u>

City of Birmingham, Michigan

Proprietary Fund Statement of Cash Flows (Continued) Year Ended June 30, 2004

	Water Supply System Receiving	Sewage Disposal System	Automobile Parking System	Golf Courses (Other Nonmajor Enterprise Fund)	Total	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities						
Operating income (loss)	\$ (232,647)	\$ (251,823)	\$ 547,403	\$ 100,798	\$ 163,731	\$ 546,984
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	361,642	970,008	859,162	35,506	2,226,318	779,778
Changes in assets and liabilities:						
Receivables	4,920	149,162	(69,881)	(1,284)	82,917	(925)
Other assets	(1)	(56,819)	(7,799)	(953)	(65,572)	(30,114)
Due from other governmental units	-	110,715	-	-	110,715	-
Inventory	-	-	(64)	-	(64)	24,196
Accounts payable	(133,073)	(541,472)	(202,250)	(16,959)	(893,754)	(306,724)
Due to other funds	-	47,840	11,634	-	59,474	-
Accrued and other liabilities	19,717	(180,076)	(27,482)	3,813	(184,028)	-
Net cash provided by operating activities	<u>\$ 20,558</u>	<u>\$ 247,535</u>	<u>\$ 1,110,723</u>	<u>\$ 120,921</u>	<u>\$ 1,499,737</u>	<u>\$ 1,013,195</u>

Noncash Investing, Capital, and Related Financing Activities - During the year, the General Fund and Capital Projects Fund paid \$49,492 for equipment and contributed it to the Equipment Fund.

City of Birmingham, Michigan

Fiduciary Fund Statement of Fiduciary Net Assets June 30, 2004

	Pension and Other Employee Benefits	Agency Fund
Assets		
Cash and cash equivalents	\$ 2,031,272	\$ 1,767,073
Investments:		
U.S. government securities	13,069,946	-
Stocks	63,206,641	-
Bonds	17,076,011	-
Receivables - Accrued interest	464,824	4,101
Due from other funds	-	85,724
Other assets	53,846	-
Total assets	95,902,540	<u><u>\$ 1,856,898</u></u>
Liabilities		
Accounts payable	162,505	\$ 39,463
Accrued and other liabilities	-	1,817,435
Total liabilities	162,505	<u><u>\$ 1,856,898</u></u>
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 95,740,035</u></u>	

City of Birmingham, Michigan

Fiduciary Funds **Statement of Changes in Fiduciary Net Assets** **Year Ended June 30, 2004**

	Pension and Other Employee Benefits
Additions	
Investment income:	
Interest and dividends	\$ 2,816,697
Net increase in fair value of investments	8,182,390
Less investment expenses	<u>(526,393)</u>
Net investment income	10,472,694
Contributions:	
Employer	1,471,223
Employee	<u>689,425</u>
Total contributions	2,160,648
Other revenue	<u>87,168</u>
Total additions	12,720,510
Deductions	
Benefit payments	3,914,835
Refunds of contributions	423,146
Administrative expenses and other	<u>163,574</u>
Total deductions	<u>4,501,555</u>
Net Increase	8,218,955
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>87,521,080</u>
End of year	<u>\$ 95,740,035</u>

City of Birmingham, Michigan

Component Units Statement of Net Assets June 30, 2004

	Baldwin Public Library	Principal Shopping District	Totals
Assets			
Cash and investments	\$ 1,348,924	\$ 535,176	\$ 1,884,100
Receivables	-	94,505	94,505
Due from other governmental units	44,085	-	44,085
Capital assets	2,832,808	3,436	2,836,244
Restricted assets	805,804	-	805,804
Other	-	57,666	57,666
Total assets	5,031,621	690,783	5,722,404
Liabilities			
Accounts payable	70,856	24,611	95,467
Accrued and other liabilities	146,501	11,708	158,209
Total liabilities	217,357	36,319	253,676
Net Assets			
Investment in capital assets - Net of related debt	2,832,808	3,436	2,836,244
Unrestricted	1,175,652	651,028	1,826,680
Restricted	805,804	-	805,804
Total net assets	<u>\$ 4,814,264</u>	<u>\$ 654,464</u>	<u>\$ 5,468,728</u>

City of Birmingham, Michigan

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants and
			Contributions
Baldwin Public Library - Culture and recreation	\$ 3,278,080	\$ 728,170	\$ -
Principal Shopping District - Community development	<u>881,222</u>	<u>741,437</u>	<u>216,313</u>
Total governmental activities	<u>\$ 4,159,302</u>	<u>\$ 1,469,607</u>	<u>\$ 216,313</u>
General revenues:			
Taxes			
State sources			
Use of money and property			
Total general revenues			
Increase in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

**Component Units
Statement of Activities
June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets		
Baldwin Public Library	Principal Shopping District	Total
\$ (2,549,910)	\$ -	\$ (2,549,910)
-	76,528	76,528
(2,549,910)	76,528	(2,473,382)
2,499,802	-	2,499,802
84,872	-	84,872
81,046	5,284	86,330
2,665,720	5,284	2,671,004
115,810	81,812	197,622
4,698,454	572,652	5,271,106
\$ 4,814,264	\$ 654,464	\$ 5,468,728

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Birmingham (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Birmingham:

Reporting Entity

The City is governed by an elected seven-member commission. As required by generally accepted accounting principles, these financial statements present the City of Birmingham and its component units.

Discretely Presented Component Units - The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The component units are reported within the component units column in the combined financial statements. They are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

- a. The Baldwin Public Library is governed by a six-member Board elected directly by the citizens of Birmingham and funded by a specially voted property tax levy. However, the City Commission approves the Library's annual budget, levies the Library millage, and provides the Library facilities. In addition, the Library is not able to issue its own debt. As a result, the Library is fiscally dependent on the City.
- b. The Principal Shopping District was created to promote economic activity within the principal shopping districts of the City by conducting market research and public relations campaigns, developing, coordinating, and conducting retail and institutional promotions, and sponsoring special events and related activities. Its Board consists of eight to 12 members appointed by the City Manager with the concurrence of the City Commission. The City Commission is responsible for approving the District's budget and setting the amount of its annual assessment.

The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation, whose governing body was selected by the City Commission, transferred its remaining assets to the Principal Shopping District during the year ended June 30, 1994 and is currently inactive. Therefore, there are no financial assets or operations to be reported.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Complete financial statements of the active component units can be obtained from their respective administrative offices at the addresses below:

Baldwin Public Library
300 West Merrill
Birmingham, MI 48012-3002

Principal Shopping District
798 North Woodward
Birmingham, MI 48009

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, special assessments, licenses, interest revenue, and charges for services. Sales taxes collected and held by the State at year end on behalf of the government also are recognized as revenue. Fines, permits, and parking meter revenues are not susceptible to accrual because generally they are not measurable until received in cash.

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

The government reports the following major governmental funds:

General Fund - The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Note 1 - Summary of Significant Accounting Policies (Continued)

Major Streets and Local Street Funds - The Major Streets and Local Streets Funds account for the resources of state gas and weight tax revenues that are restricted for use on major and local streets.

Capital Projects Fund - The Capital Projects Fund accounts for the financial resources such as proceeds of bond issues, transfers from other funds, and other revenue necessary for the purpose of constructing or acquiring major capital improvements of the City such as a community center, enhancements to the City's parks, streetscape improvements, and a fire training tower. Improvements to the City's roads, water and sewer infrastructure, parking system, golf courses, and those projects financed primarily by special assessments are accounted for in other funds.

The government reports the following major proprietary funds:

Automobile Parking System Fund - The Automobile Parking System Fund accounts for the activities of the parking structures and meters.

Water Supply System Receiving Fund - The Water Supply System Receiving Fund accounts for water sales that finance water purchased from the Southeastern Oakland County Water Authority and the installation and maintenance of meters and mains within the City.

Sewage Disposal System Fund - The Sewage Disposal System Fund accounts for the activities of the sewage collection system. The City of Birmingham disposes of sewage through two county-operated facilities. Operating in the north and southeastern sections of the City is the Southeastern Oakland County Sewage Disposal District, and in the southwestern section of the City, sewage and storm disposal is provided by the Evergreen-Farmington System.

Additionally, the government reports the following fund types:

Internal Service Funds - Internal Service Funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the government on a cost reimbursement basis.

Pension and Other Employees' Benefits Fund - The Pension and Other Employees' Benefits Fund accounts for the activities of the employees' retirement system, which accumulates resources for pension benefit payments to qualified employees and for health care benefits provided to employees during retirement.

Agency Funds - The Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for water sales and services, sewage disposal, golf course, and automobile parking system fees and charges. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of water, sewage disposal, operations and maintenance, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City's 2003 ad valorem tax is levied and collectible on July 1, 2003, and is recognized as revenue in the year ended June 30, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the City totaled \$1,601,455,079, on which ad valorem taxes levied consisted of 11.6129 mills for operating purposes, .9278 mills for refuse services, and 1.4583 mills for debt service. This resulted in \$18.5 million for operating expenses, \$1.5 million for refuse services, and \$2.3 million for debt service, exclusive of any Michigan Tax Tribunal or Board of Review adjustments. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund is generally allocated to each fund using a weighted average, except that the component units, Internal Service Funds, Solid Waste Disposal Fund, and Municipal Golf Courses Fund investment earnings are allocated to the General Fund.

Receivables - All customer receivables are shown net of allowance for uncollectible amounts. For the year ended June 30, 2004, there was approximately \$335,000 in allowances for parking fines and approximately \$141,000 in an allowance for delinquent personal property taxes. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds, with the exception of those in the Major Streets and Local Streets Funds, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	15-25 years
Buildings and improvements	10-50 years
Improvements other than buildings	10-50 years
Land improvements	10-50 years
Machinery and equipment	5-10 years
Water and sewer distribution systems	40-50 years

Compensated Absences (Vacation and Sick Leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability is calculated for a portion of the unused accumulated sick leave when balances reach a certain level. The City does not have a policy to pay any amounts when employees terminate their service with the City. A portion of the unused sick leave balance is paid to employees who retire their services with the City. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Interfund Receivables, Payable, and Transfers

For the year ended June 30, 2004, interfund balances reported in the fund statements were as follows:

Receivable Fund	Payable Fund	Amount
Due to/from other funds:		
Agency Fund	Major Streets Fund	\$ 19,545
Agency Fund	Capital Projects Fund	6,705
Agency Fund	Sewage Disposal System Fund	47,840
Agency Fund	Automobile Parking System Fund	11,634
Total		<u>\$ 85,724</u>

These interfund balances are caused by the normal time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2004

Note 2 - Interfund Receivables, Payable, and Transfers (Continued)

Interfund transfers reported in the fund statements were follows:

	Transfers Out					Total
	General Fund	Major Streets	Capital Projects	Other Nonmajor Governmental Funds	Enterprise Funds	
Transfers in:						
General Fund	\$ -	\$ -	\$ -	\$ 40,319 (2)	\$ 20,000 (3)	\$ 60,319
Major Streets Fund	625,500 (1)(2)	-	-	-	-	625,500
Local Streets Fund	1,150,000 (1)(2)	205,546 (5)	-	-	-	1,355,546
Capital Projects Fund	1,145,000 (2)	-	-	-	5,587 (2)	1,150,587
Other nonmajor governmental funds	-	-	68,943 (6)	10,000 (7)	-	78,943
Enterprise Funds	47,463 (4)	-	-	-	-	47,463
Total	<u>\$ 2,967,963</u>	<u>\$ 205,546</u>	<u>\$ 68,943</u>	<u>\$ 50,319</u>	<u>\$ 25,587</u>	<u>\$ 3,318,358</u>

The following describes the nature of significant transfers:

- (1) Transfers of discretionary funds to be used for the benefit of the community
- (2) Transfers for capital improvements
- (3) Fee in lieu of taxes
- (4) Transfer for Baldwin House parking spaces
- (5) 25 percent transfer of gas and weight taxes as allowed by Act 51
- (6) Transfer of excess bond proceeds to be used for debt service requirements
- (7) Transfer into Debt Service Fund

Note 3 - Stewardship, Compliance, and Accountability

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs.

A summary of the cumulative surplus and activity for the year ended June 30, 2004 is as follows:

Surplus as of June 30, 2003	\$ 614,848
Building permit revenue	1,443,483
Related expenses:	
Direct costs	\$ 937,020
Estimated indirect costs	<u>490,586</u>
Total construction code expenses	<u>1,427,606</u>
Surplus as of June 30, 2004	<u>\$ 630,725</u>

Note 3 - Stewardship, Compliance, and Accountability (Continued)

The above surplus amount is related primarily to large commercial construction projects within the City. This project has resulted in greater than usual building permit revenues. The surplus is therefore not expected to remain over future years and has been reserved in the General Fund.

Note 4 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. To the extent that cash from various funds has been pooled in an investment, related investment income is allocated to each fund based on relative participation in the pool.

The governing body has designated two banks for the deposit of local unit funds. The investment policy adopted by the commission in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs.

The pension trust funds are also authorized by Michigan Public Act 485 of 1996 (as amended) to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City's deposits and investment policy are in accordance with statutory authority.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Deposits and Investments (Continued)

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and investments	\$ 24,308,431	\$ 19,488,979	\$ 97,150,943	\$ 140,948,353	\$ 1,884,100
Restricted assets	<u>5,336,057</u>	<u>1,886,934</u>	<u>-</u>	<u>7,222,991</u>	<u>805,804</u>
Total	<u>\$ 29,644,488</u>	<u>\$ 21,375,913</u>	<u>\$ 97,150,943</u>	<u>\$ 148,171,344</u>	<u>\$ 2,689,904</u>

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 4,638,653	\$ (16,803)
Investments in securities, mutual funds, and similar vehicles	143,526,910	2,705,782
Petty cash or cash on hand	<u>5,781</u>	<u>925</u>
Total	<u>\$ 148,171,344</u>	<u>\$ 2,689,904</u>

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$5,458,594, of which \$120,207 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Deposits and Investments (Continued)

Investments

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at June 30, 2004. Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the City or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the City's name

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
Corporate bonds	\$ -	\$ 17,076,011	\$ -	\$ 17,076,011
U.S. government securities	-	51,232,679	-	51,232,679
Equity securities	-	63,206,643	-	63,206,643
Subtotal	<u>\$ -</u>	<u>\$ 131,515,333</u>	<u>\$ -</u>	<u>131,515,333</u>
Investments not subject to categorization:				
Bank Fund Investment Pool				16,469,147
MBIA Michigan Class Investment Pool				<u>24,059</u>
Total primary government				<u>\$ 148,008,539</u>
Component units:				
U.S. government securities	<u>\$ -</u>	<u>\$ 1,615,812</u>	<u>\$ -</u>	<u>\$ 1,615,812</u>
Bank investment pool funds				<u>1,089,970</u>
Total component unit				<u>\$ 2,705,782</u>

Note 4 - Deposits and Investments (Continued)

The bank fund investment pools and MBIA Michigan Class Investing pool are not categorized because they are not evidenced by securities that are in physical or book entry form. The bank fund investment pools represent a pooling of investments held by the trust department of the bank, and are not subject to general creditors of the bank and therefore are not subject to federal depository insurance; all activity is regulated by the Michigan Banking Act. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares.

The component unit deposits have a bank balance of \$267,363, of which \$100,000 is covered by depository insurance. The investments are comprised of \$284,166 of bank and MBIA Michigan Class investment pools and \$1,615,812 of U.S. government securities (Risk Category 2). The bank fund investment pools and MBIA Michigan Class investment pools are not categorized because they are not evidenced by securities that are in physical or book entry form.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 7,635,190	\$ -	\$ -	\$ 7,635,190
Construction in progress	2,774,552	2,078,451	858,573	3,994,430
Subtotal	10,409,742	2,078,451	858,573	11,629,620
Capital assets being depreciated:				
Roads and sidewalks	34,867,379	2,689,025	1,846,371	35,710,033
Buildings and improvements	22,074,836	640,856	2,200	22,713,492
Improvements other than buildings	337,331	295,256	-	632,587
Machinery and equipment	9,762,340	740,847	548,830	9,954,357
Subtotal	67,041,886	4,365,984	2,397,401	69,010,469
Accumulated depreciation:				
Roads and sidewalks	17,984,171	1,042,990	1,846,371	17,180,790
Buildings and improvements	2,821,241	136,400	902	2,956,739
Improvements other than buildings	2,163	10,667	-	12,830
Machinery and equipment	6,395,781	944,696	426,675	6,913,802
Subtotal	27,203,356	2,134,753	2,273,948	27,064,161
Net capital assets being depreciated	39,838,530	2,231,231	123,453	41,946,308
Net capital assets	<u>\$ 50,248,272</u>	<u>\$ 4,309,682</u>	<u>\$ 982,026</u>	<u>\$ 53,575,928</u>

The beginning cost of roads and sidewalks, as well as the associated accumulated depreciation, has been increased by approximately \$15,885,000 to account for the correction of an error in the prior year. There was no impact on net asset balances.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 1,597,920	\$ -	\$ -	\$ 1,597,920
Construction in progress	7,328,982	801,049	575,190	7,554,841
Subtotal	8,926,902	801,049	575,190	9,152,761
Capital assets being depreciated:				
Water and sewer distribution systems	48,190,243	3,768,587	-	51,958,830
Land improvements	1,647,553	51,291	-	1,698,844
Buildings and building improvements	28,137,942	564,199	-	28,702,141
Machinery and equipment	1,735,226	55,365	-	1,790,591
Subtotal	79,710,964	4,439,442	-	84,150,406
Accumulated depreciation:				
Water and sewer distribution systems	7,850,384	1,313,586	-	9,163,970
Land improvements	-	-	-	-
Buildings and building improvements	11,615,599	750,725	-	12,366,324
Machinery and equipment	1,327,799	162,004	-	1,489,803
Subtotal	20,793,782	2,226,315	-	23,020,097
Net capital assets being depreciated	58,917,182	2,213,127	-	61,130,309
Net capital assets	\$ 67,844,084	\$ 3,014,176	\$ 575,190	\$ 70,283,070

Capital asset activity for the City's component units was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Component Units				
Capital assets not being depreciated -				
Fine arts	\$ 95,500	\$ -	\$ -	\$ 95,500
Capital assets being depreciated:				
Equipment	1,655,441	248,945	142,088	1,762,298
Books, periodicals, etc.	7,176,899	377,317	92,057	7,462,159
Subtotal	8,832,340	626,262	234,145	9,224,457
Less accumulated depreciation	(6,085,899)	(615,472)	(217,658)	(6,483,713)
Net capital assets being depreciated	2,746,441	10,790	16,487	2,740,744
Net capital assets	\$ 2,841,941	\$ 10,790	\$ 16,487	\$ 2,836,244

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 89,369
Public safety	112,642
Public works	1,083,830
Economic development	2,272
Recreation and culture	66,862
Internal Service Fund depreciation is charged to the various function based on their usage of the asset	<u>779,778</u>

Total governmental activities	<u>\$ 2,134,753</u>
-------------------------------	---------------------

Business-type activities:

Water	\$ 361,642
Sewer	970,008
Automobile parking system	859,162
Golf courses	<u>35,506</u>

Total business-type activities	<u>\$ 2,226,318</u>
--------------------------------	---------------------

Construction Commitments - At year end, the City of Birmingham has active construction projects. The City's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Street projects	\$ 2,140,316	\$ 1,088,433
Parking deck improvements	727,741	190,455
Building improvements	-	249,967
Sidewalks	-	71,780
Park renovations	2,314,306	554,926
Sewer improvements	2,573,921	1,176,686
Water system improvements	<u>713,817</u>	<u>322,174</u>
Total	<u>\$ 8,470,101</u>	<u>\$ 3,654,421</u>

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
1993 Facility Renovation Bonds:							
Amount of issue - \$18,400,000	4.7% -	\$300,000 -					
Maturing through 2012	5.40%	\$800,000	\$ 5,550,000	\$ -	\$ (5,550,000)	\$ -	\$ -
2002 Parks and Recreation Bonds:							
Amount of issue - \$15,700,000	2.0% -	\$200,000 -					
Maturing through 2025	5.00%	\$1,300,000	15,700,000	-	(200,000)	15,500,000	200,000
2003 Refunding Bonds:							
Amount of issue - \$9,055,000	2.0% -	\$580,000 -					
Maturing through 2012	4.00%	\$1,500,000	-	5,130,000	-	5,130,000	325,000
Other long-term obligations -							
Accumulated employee benefits			1,139,320	88,436	-	1,227,756	740,957
Total governmental activities			<u>\$ 22,389,320</u>	<u>\$ 5,218,436</u>	<u>\$ (5,750,000)</u>	<u>\$ 21,857,756</u>	<u>\$ 1,265,957</u>

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
General obligation bonds:							
Chester Street Parking Structure:							
Amount of issue - \$18,400,000	4.7% -	\$815,000 -					
Maturing through 2012	5.40%	\$1,020,000	\$ 4,915,000	\$ -	\$ (4,915,000)	-	\$ -
Peabody Street Parking Structure:							
Amount of issue - \$2,950,000	4.65% -	\$120,000 -					
Maturing through 2003	4.75%	\$130,000	130,000	-	(130,000)	-	-
2000 Sewer Improvement Bonds:							
Amount of issue - \$12,000,000	5.25% -	\$200,000 -					
Maturing through 2020	8.00%	\$1,200,000	11,300,000	-	(200,000)	11,100,000	250,000
2003 Refunding Bonds:							
Amount of issue - \$9,055,000	2.0% -	\$580,000 -					
Maturing through 2012	4.00%	\$1,500,000	-	3,925,000	-	3,925,000	1,125,000
C.S.O. Obligations:							
Amount of issue - \$22,706,977							
(Net of 1996 and 1999							
defeasance)	2% -	\$838,066 -					
Maturing through 2016	7.00%	\$1,694,906	18,931,691	1,179,120	(2,157,888)	17,952,923	1,073,395
George W. Kuhn Drain Bonds:							
Amount of issue - \$5,672,532	2.5% -	\$42,654 -					
Maturing through 2024	6.00%	\$349,529	5,629,879	-	(43,366)	5,586,513	220,617
North Arm Drain Bonds:							
Amount of issue - \$13,877,387	1.1% -	\$121,756 -					
Maturing through 2021	1.30%	\$174,693	2,938,537	77,079	(403,100)	2,612,516	127,123
Total bonds and other contractual obligations			43,845,107	5,181,199	(7,849,354)	41,176,952	2,796,135
Other long-term obligations -							
Accumulated employee benefits			27,581	267	-	27,848	16,175
Total business-type activities			\$ 43,872,688	\$ 5,181,466	\$ (7,849,354)	\$ 41,204,800	\$ 2,812,310

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 525,000	\$ 825,368	\$ 1,350,368	\$ 2,796,135	\$ 1,614,467	\$ 4,410,602
2006	725,000	811,807	1,536,807	2,821,808	1,528,989	4,350,797
2007	900,000	791,494	1,691,494	2,934,509	1,433,315	4,367,824
2008	925,000	763,495	1,688,495	2,752,918	1,329,685	4,082,603
2009	980,000	729,896	1,709,896	2,076,206	1,237,019	3,313,225
2010-2014	16,575,000	5,927,069	22,502,069	27,795,376	7,128,401	34,923,777
Total	\$ 20,630,000	\$ 9,849,129	\$ 30,479,129	\$ 41,176,952	\$ 14,271,876	\$ 55,448,828

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Restricted Assets

The balance of the restricted assets in the governmental activities is approximately \$5,293,000, which is restricted for facility and park improvement projects and approximately \$43,000, which is restricted for employee health care deductibles. In addition, business-type restricted assets of approximately \$1,887,000 are restricted for sewer improvement projects.

Note 8 - Designated Fund Balance

Fund balances have been designated as follows:

Capital Projects Fund:

Woodward median	\$ 1,863,471
Downtown 2016 plan	622,948
Downtown streetscape	269,208
Downtown streetlights	126,090
Chester Street structure	65,100
EPS property maintenance	40,817
City Hall and grounds	26,800
Fire station training tower	11,346
Park improvements	5,000
Ice arena renovation	<u>7,144</u>
Total	<u>\$ 3,037,924</u>

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City is insured under the Michigan Municipal League for workers' compensation claims, general liability, and property loss and is self-insured for other employee retiree, health, and dental claims.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2004

Note 9 - Risk Management (Continued)

The City estimates the liability for general liability and employee health and dental claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the Risk Management Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2004</u>	<u>2003</u>
Unpaid claims - Beginning of year	\$ 466,342	\$ 675,406
Incurred claims - Including claims incurred but not reported	1,996,931	1,476,599
Claim payments	<u>(2,338,330)</u>	<u>(1,685,663)</u>
Unpaid claims - End of year	<u>\$ 124,943</u>	<u>\$ 466,342</u>

Note 10 - Defined Benefit Pension Plan

Plan Description - The City of Birmingham Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Birmingham Employees' Retirement System Pension Board. This plan covers all full-time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the City of Birmingham, 151 Martin, P.O. Box 3001, Birmingham, MI 48009.

Funding Policy - The City Commission is responsible for establishing and amending plan provisions, pursuant to negotiation with the City's competitive bargaining units.

Currently, a contribution from the employees of 3 percent to 5 percent of their covered salary is required. The funding policy provides for periodic employer contributions at actuarially determined rates. Only employee contributions were required for the year ended June 30, 2004.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2004

Note 10 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For the year ended June 30, 2004, the City had no required pension contributions. The annual required contribution was determined as part of an actuarial valuation at June 30, 2003, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return, (b) projected salary increases of 4 percent per year, (c) additional projected salary increases ranging from 0.0 percent to 3.8 percent per year depending on age, attributable to seniority/merit, and (d) no cost of living adjustments. Both (a) and (b) include an inflation component of 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The overfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 15 years.

Reserves

As of June 30, 2004, the plan's legally required reserves has been fully funded as follows:

Reserve for employees' contributions	\$ 7,895,761
Reserve for retired benefit payments	30,773,991

Three-year trend information as of June 30 follows:

	Fiscal Year Ended June 30		
	2002	2003	2004
Employees' Retirement System:			
Annual pension costs (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Note 11 - Postemployment Benefits

In addition to providing pension benefits, the City provides health care benefits to certain full-time employees, based on age and years of service, upon retirement in accordance with labor contracts. Currently, 135 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with some contributions required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums and claim administrator reimbursements become due; during the year, this amounted to approximately \$1,050,000.

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2008.

Note 12 - Joint Ventures

Birmingham Area Cablecasting Board

The City is a member of the Birmingham Area Cablecasting Board, which provides cable program coordinating services to the residents of Birmingham, Beverly Hills, and Franklin Village. The City receives quarterly checks from Comcast, which consist of revenue related to franchise and use fees. The City then distributes a fixed percentage of the amounts received to the Village of Beverly Hills for their portion of the revenues. It does not appear that the City would receive any additional benefit or detriment upon dissolution of this joint venture. The City's equity interest in the joint venture is insignificant. Complete financial statements for the Birmingham Area Cablecasting Board can be obtained from the administrative offices at 30400 Telegraph Road, Suite 328, Birmingham, MI 48010.

Note 12 - Joint Ventures (Continued)

Southeastern Oakland County Sewage Disposal System

The City is a member of the Southeastern Oakland County Sewage Disposal System, which consists of 13 municipalities in Oakland County and provides sewage disposal services for the benefit of member municipalities. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2004, the City expensed approximately \$993,000 of payments made to the Authority. The City has no explicit and measurable equity interest in the joint venture. The Southeastern Oakland County Sewage Disposal System's operations are financially independent of the City. The City is unaware of any circumstances that would cause an additional financial benefit or burden to the participating governments in the near future. Complete financial statements for the Southeastern Oakland County Sewage Disposal System can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, MI 48073.

Southeastern Oakland County Water Authority

The City is a member of the Southeastern Oakland County Water Authority, which provides a water supply system serving 11 member municipalities in Oakland County. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2004, the City expensed approximately \$1,114,400 of payments made to the Authority. The City has no explicit and measurable equity interest in the joint venture. The Southeastern Oakland County Water Authority's operations are financially independent of the City. The City is unaware of any circumstances that would cause an additional financial benefit or burden to the participating governments in the near future. The Southeastern Oakland County Water Authority has two debt issuances totaling approximately \$8,550,000, of which the City has guaranteed approximately \$644,000 at June 30, 2004. Complete financial statements for the Southeastern Oakland County Water Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, MI 48073.

Note 12 - Joint Ventures (Continued)

Southeastern Oakland County Resource Recovery Authority

The City is a member of the Southeastern Oakland County Resource Recovery Authority, which consists of 14 municipalities in Oakland County and provides refuse disposal services for the benefit of member municipalities. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2004, the City expensed approximately \$540,000 of payments made to the Authority. The City has no explicit and measurable equity interest in the joint venture. The Southeastern Oakland County Resource Recovery Authority's operations are financially independent of the City. The City is unaware of any circumstances that would cause an additional financial benefit or burden to the participating governments in the near future. Complete financial statements for the Southeastern Oakland County Resource Recovery Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, MI 48073.

48th Judicial District Court

The City is a participant with Bloomfield Township, the Charter Township of West Bloomfield, and the City of Bloomfield Hills in the operations of the 48th Judicial District Court (the "Court"). The City advances its allocated share of Court expenditures and receives a share of the Court revenue based on relative caseload levels. The City's share of Court expenditures amounted to \$749,493 and its share of Court revenue amounted to \$697,193 for the Court's year ended December 31, 2003. Complete audited financial statements for the Court can be obtained from the Court's administrative offices at 4280 Telegraph Road in Bloomfield Township. The City's equity interest at June 30, 2004 is \$398,181.

Required Supplemental Information

City of Birmingham, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 16,154,540	\$ 16,084,540	\$ 16,113,980	\$ 29,440
Licenses and permits	1,553,980	1,573,980	1,788,000	214,020
Intergovernmental revenue	1,803,920	1,803,920	1,923,000	119,080
Charges for services	2,034,640	2,134,640	2,205,991	71,351
Fines and forfeitures	1,509,500	1,250,300	1,268,379	18,079
Interest and rent	439,250	189,250	174,808	(14,442)
Other	354,570	135,610	112,828	(22,782)
Contributions	158,760	60,350	60,319	(31)
Total revenue	<u>\$ 24,009,160</u>	<u>\$ 23,232,590</u>	<u>\$ 23,647,305</u>	<u>\$ 414,715</u>
Expenditures				
General government	\$ 5,199,430	\$ 4,874,907	\$ 4,781,522	\$ 93,385
Public safety	9,024,830	9,389,037	8,997,239	391,798
Community development	1,724,140	1,741,200	1,587,838	153,362
Engineering and public services	3,402,440	3,515,918	3,406,619	109,299
Contingency	174,440	14,440	-	14,440
Transfers out	3,893,000	3,663,000	3,649,210	13,790
Contribution to fund balance	590,880	34,088	1,224,877	(1,190,789)
Total expenditures	<u>\$ 24,009,160</u>	<u>\$ 23,232,590</u>	<u>\$ 23,647,305</u>	<u>\$ (414,715)</u>

City of Birmingham, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Streets Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Special assessments	\$ -	\$ -	\$ 6,952	\$ 6,952
Intergovernmental revenue	800,590	800,590	849,083	48,493
Other revenue	60,000	60,000	88,678	28,678
Interest and rent	89,400	64,400	30,470	(33,930)
Contributions	625,500	625,500	625,500	-
Draw from fund balance	<u>1,744,670</u>	<u>2,737,843</u>	<u>535,282</u>	<u>(2,202,561)</u>
Total revenue	<u>\$ 3,320,160</u>	<u>\$ 4,288,333</u>	<u>\$ 2,135,965</u>	<u>\$ (2,152,368)</u>
Expenditures				
Maintenance of streets and bridges	\$ 1,079,840	\$ 240,775	\$ 165,735	\$ 75,040
Street cleaning	202,300	235,780	189,178	46,602
Street trees	197,190	202,125	219,575	(17,450)
Traffic controls and engineering	510,620	510,620	307,747	202,873
Snow and ice removal	230,620	230,620	173,523	57,097
Administrative	15,390	15,390	15,348	42
Transfer to Local Streets Fund	193,200	193,200	205,546	(12,346)
Capital outlay - Engineering and construction of roads and bridges	<u>891,000</u>	<u>2,659,823</u>	<u>859,313</u>	<u>1,800,510</u>
Total expenditures	<u>\$ 3,320,160</u>	<u>\$ 4,288,333</u>	<u>\$ 2,135,965</u>	<u>\$ 2,152,368</u>

City of Birmingham, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Local Streets Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Intergovernmental revenue	\$ 351,970	\$ 351,970	\$ 356,757	\$ 4,787
Contributions from other funds	1,343,200	1,343,200	1,355,546	12,346
Interest and rent	52,270	52,270	27,832	(24,438)
Special assessments	119,500	169,500	215,529	46,029
Other	-	-	30,354	30,354
Total revenue	\$ 1,866,940	\$ 1,916,940	\$ 1,986,018	\$ 69,078
Expenditures				
Maintenance of streets and bridges	\$ 234,810	\$ 252,709	\$ 244,129	\$ 8,580
Street cleaning	201,560	216,560	214,653	1,907
Street trees	511,430	676,445	535,539	140,906
Traffic controls and engineering	76,580	76,580	79,251	(2,671)
Snow and ice removal	102,780	102,780	99,040	3,740
Administrative	25,260	25,260	25,218	42
Capital outlay - Engineering and construction of roads and bridges	465,000	1,272,988	1,004,370	268,618
Contribution to (deduction from) fund balance	249,520	(706,382)	(216,182)	(490,200)
Total expenditures	\$ 1,866,940	\$ 1,916,940	\$ 1,986,018	\$ (69,078)

City of Birmingham, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress June 30, 2004

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded AAL (UAAL) (a-b)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	Overfunded AAL as a Percentage of Covered Payroll
General Employees' Retirement System						
6/30/98	\$ 75,696,740	\$ 47,162,594	\$ 28,534,146	1.605	\$ 8,583,532	3.324
6/30/99	85,246,634	49,913,637	35,332,997	1.708	9,236,258	3.825
6/30/00	93,811,587	53,812,167	39,999,420	1.743	9,867,703	4.054
6/30/01	97,938,389	56,216,921	41,721,468	1.742	9,741,497	4.283
6/30/02	89,780,104	64,898,186	24,881,918	1.383	10,877,102	2.288
6/30/03	89,339,691	68,301,496	21,038,195	1.308	10,975,158	1.917
6/30/04	86,997,980	*	*	*	*	*

*Information not available

Employees' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
06/30/98	06/30/96	-	100.0
06/30/99	06/30/97	-	100.0
06/30/00	06/30/98	-	100.0
06/30/01	06/30/99	-	100.0
06/30/02	06/30/00	-	100.0
06/30/03	06/30/01	-	100.0
06/30/04	06/30/03	-	100.0

* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2003, the latest actuarial valuation date, follows:

Employees' Retirement System

Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll
Remaining amortization period	15 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases:	
General	4.0%-7.8%
Police and fire	4.0%-7.0%
Assumed rate of payroll growth	4.0%
Cost of living adjustments	None

According to actuarial requirements, there have been no required employer contributions to the plan for the last 12 years.

City of Birmingham, Michigan

Note to Required Supplemental Information June 30, 2004

Note - Compliance and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds, except that fund balance appropriations and transfers are budgeted as either revenue or expenditures to balance the budget. All annual appropriations lapse at fiscal year end.

The annual budget is prepared by the City management and adopted by the City Commission. The City adopts its General Fund budget and Special Revenue Fund budget by budgetary center (major activity or function), and by fund total for Debt Service Funds. This is in accordance with the State's legal requirement and is the level of classification detail at which, by law, expenditures may not exceed appropriations. The following process is required to amend the City's budget:

- a. The city manager is authorized to transfer budgeted amounts within budgetary centers. This is accomplished by the use of an internal budget adjustment form, initialed and approved by the requesting department head, reviewed and approved by the finance director, and then approved by the city manager. Any revisions that alter the total expenditures of any budgetary center must be approved by the City Commission.
- b. At any meeting after the passage of the appropriation resolution, the City Commission may amend such resolution so as to authorize the transfer of unused balances appropriated for one purpose to another purpose. A formal budget amendment request is prepared by the finance director and submitted to the city manager for approval, prior to submission to the City Commission.

Budgeted amounts of the revenues and expenditures presented for the General, Special Revenue, Debt Service, and Capital Projects Funds are a summarization of the budgeted amounts as originally adopted or as amended by the City Commission. Individual amendments were not material in relation to the original appropriations that were adopted.

City of Birmingham, Michigan

Note to Required Supplemental Information June 30, 2004

Note - Compliance and Accountability (Continued)

Unexpended appropriations lapse at year end except for those approved for carryforward by the City Commission. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary procedures. Material encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances during the year.

Other Supplemental Information

City of Birmingham, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2004

	Nonmajor Special Revenue Funds				Nonmajor Debt Service Fund		Total Nonmajor Governmental Funds
	Solid Waste	Community Development Block Grant	Law and Drug Forfeitures	425 Economic Development	2003 Refunding	2002 Parks and Recreation	
Assets							
Cash and investments	\$ 995,041	\$ -	\$ 120,833	\$ 9,970	\$ 108,079	\$ 1,631	\$ 1,235,554
Receivables - Net - Customers	629	-	-	-	-	-	629
Due from other governmental units	-	42,340	-	-	-	-	42,340
Total assets	\$ 995,670	\$ 42,340	\$ 120,833	\$ 9,970	\$ 108,079	\$ 1,631	\$ 1,278,523
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 136,339	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 136,339
Accrued and other liabilities	1,760	42,340	-	-	-	-	44,100
Total liabilities	138,099	42,340	-	-	-	-	180,439
Fund Balances							
Reserved for:							
Law and drug enforcement programs	-	-	120,833	-	-	-	120,833
Debt service	-	-	-	-	108,079	1,631	109,710
Unreserved	857,571	-	-	9,970	-	-	867,541
Total fund balances	857,571	-	120,833	9,970	108,079	1,631	1,098,084
Total liabilities and fund balances	\$ 995,670	\$ 42,340	\$ 120,833	\$ 9,970	\$ 108,079	\$ 1,631	\$ 1,278,523

City of Birmingham, Michigan

	Nonmajor Special Revenue Funds			
	Solid Waste	Community Development Block Grant	Law and Drug Fund	425 Economic Development
Revenues				
Property taxes	\$ 1,473,140	\$ -	\$ -	\$ 9,885
Federal grants	-	53,525	90,349	-
State grants and distributions	-	-	781	-
Charges for services	138,172	-	-	-
Use of money and property	14,733	-	842	85
Other	-	-	3,250	-
Total revenues	1,626,045	53,525	95,222	9,970
Expenditures				
Current:				
Public safety	-	-	1,769	-
Solid waste	1,519,664	-	-	-
Community development	-	13,206	47,419	-
Debt service	-	-	-	-
Total expenditures	1,519,664	13,206	49,188	-
Excess of Revenues Over (Under) Expenditures	106,381	40,319	46,034	9,970
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers out	-	(40,319)	-	-
Total other financing sources (uses)	-	(40,319)	-	-
Net Change in Fund Balances	106,381	-	46,034	9,970
Fund Balances - Beginning of year	751,190	-	74,799	-
Fund Balances - End of year	\$ 857,571	\$ -	\$ 120,833	\$ 9,970

Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2004

Nonmajor Debt Service Funds		
2003 Refunding	2002 Parks and Recreation	Total Nonmajor Governmental Funds
\$ 630,381	\$ 854,360	\$ 2,967,766
-	-	143,874
-	-	781
-	-	138,172
1,149	1,946	18,755
7,366	-	10,616
638,896	856,306	3,279,964
-	-	1,769
-	-	1,519,664
-	-	60,625
599,839	864,675	1,464,514
599,839	864,675	3,046,572
39,057	(8,369)	233,392
68,943	10,000	78,943
(10,000)	-	(50,319)
58,943	10,000	28,624
98,000	1,631	262,016
10,079	-	836,068
\$ 108,079	\$ 1,631	\$ 1,098,084

City of Birmingham, Michigan

Other Supplemental Information Budgetary Comparison Schedule Nonmajor Governmental Funds Year Ended June 30, 2004

Special Revenue Fund - Solid Waste

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Taxes	\$ 1,485,830	\$ 1,485,830	\$ 1,473,140	\$ (12,690)
Charges for services	38,500	38,500	138,172	99,672
Interest	38,840	38,840	14,733	(24,107)
Other	500	500	-	(500)
Draw from fund balance	1,350	1,350	-	(1,350)
Total revenues	<u>\$ 1,565,020</u>	<u>\$ 1,565,020</u>	<u>\$ 1,626,045</u>	<u>\$ 61,025</u>
Expenditures				
Refuse pickup	\$ 711,500	\$ 711,500	\$ 713,273	\$ (1,773)
Incinerator	584,880	584,880	540,036	44,844
Equipment rental	100,000	100,000	100,087	(87)
Salaries	122,990	122,990	122,866	124
Miscellaneous	45,650	45,650	43,402	2,248
Total expenditures	<u>\$ 1,565,020</u>	<u>\$ 1,565,020</u>	<u>\$ 1,519,664</u>	<u>\$ 45,356</u>

Special Revenue Fund - Community Development Block Grant

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues - Intergovernmental	<u>\$ 45,430</u>	<u>\$ 60,430</u>	<u>\$ 53,525</u>	<u>\$ (6,905)</u>
Expenditures				
Community development	\$ 20,430	\$ 20,430	\$ 13,206	\$ 7,224
Operating transfer to General Fund	25,000	40,000	40,319	(319)
Total expenditures	<u>\$ 45,430</u>	<u>\$ 60,430</u>	<u>\$ 53,525</u>	<u>\$ 6,905</u>

City of Birmingham, Michigan

Other Supplemental Information Budgetary Comparison Schedule Nonmajor Governmental Funds (Continued) Year Ended June 30, 2004

Special Revenue Fund - Law and Drug Fund

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Fines and forfeitures	\$ 12,500	\$ 12,500	\$ 91,130	\$ 78,630
Interest and other	6,260	6,260	4,092	(2,168)
Draw from fund balance	25,140	47,890	-	(47,890)
Total revenues	<u>\$ 43,900</u>	<u>\$ 66,650</u>	<u>\$ 95,222</u>	<u>\$ 28,572</u>
Expenditures				
Public safety	\$ 7,900	\$ 10,350	\$ 1,769	\$ 8,581
Capital outlay	36,000	56,300	47,419	8,881
Total expenditures	<u>\$ 43,900</u>	<u>\$ 66,650</u>	<u>\$ 49,188</u>	<u>\$ 17,462</u>

Special Revenue Fund - 425 Economic Development Fund

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Taxes	\$ 12,260	\$ 12,260	\$ 9,885	\$ (2,375)
Interest and other	-	-	85	85
Total revenues	<u>\$ 12,260</u>	<u>\$ 12,260</u>	<u>\$ 9,970</u>	<u>\$ (2,290)</u>
Expenditures - Contribution to fund balance	<u>\$ 12,260</u>	<u>\$ 12,260</u>	<u>\$ 9,970</u>	<u>\$ 2,290</u>

City of Birmingham, Michigan

Other Supplemental Information Budgetary Comparison Schedule Nonmajor Governmental Funds (Continued) Year Ended June 30, 2004

Debt Service Fund - 2003 Refunding

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Taxes	\$ 627,330	\$ 636,180	\$ 630,381	\$ (5,799)
Interest and other	4,820	4,820	8,515	3,695
Transfer in	-	-	68,943	68,943
Total revenues	<u>\$ 632,150</u>	<u>\$ 641,000</u>	<u>\$ 707,839</u>	<u>\$ 66,839</u>
Expenditures				
Principal	\$ 350,000	\$ 350,000	\$ 350,000	\$ -
Interest	281,750	281,750	259,508	22,242
Paying agent fee	400	400	331	69
Total expenditures	<u>\$ 632,150</u>	<u>\$ 632,150</u>	<u>\$ 609,839</u>	<u>\$ 22,311</u>

Debt Service Fund - 2002 Parks and Recreation

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Taxes	\$ 858,900	\$ 852,900	\$ 854,359	\$ 1,459
Interest and other	6,000	2,000	1,946	(54)
Transfer in	-	10,000	10,000	-
Total revenues	<u>\$ 864,900</u>	<u>\$ 864,900</u>	<u>\$ 866,305</u>	<u>\$ 1,405</u>
Expenditures				
Principal	\$ 200,000	\$ 200,000	\$ 200,000	\$ -
Interest	664,450	664,450	664,450	-
Paying agent fee	400	400	225	175
Total expenditures	<u>\$ 864,850</u>	<u>\$ 864,850</u>	<u>\$ 864,675</u>	<u>\$ 175</u>

City of Birmingham, Michigan

Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2004

	Equipment	Personal Services	Risk Management	Total
Assets				
Cash and investments	\$ 4,753,903	\$ 683,427	\$ 2,076,702	\$ 7,514,032
Receivables	925	-	-	925
Inventory	68	-	-	68
Prepaid costs and other assets	-	-	112,726	112,726
Restricted assets	-	-	43,153	43,153
Capital assets	2,698,580	-	-	2,698,580
Total assets	7,453,476	683,427	2,232,581	10,369,484
Liabilities				
Accounts payable	39,269	-	18,509	57,778
Accrued liabilities	67,411	314,811	1,299	383,521
Provision for uninsured losses and liabilities	-	-	124,943	124,943
Total liabilities	106,680	314,811	144,751	566,242
Net Assets				
Investment in capital assets - Net of related debt	2,698,580	-	-	2,698,580
Retained earnings	4,648,216	368,616	2,087,830	7,104,662
Total net assets	<u>\$ 7,346,796</u>	<u>\$ 368,616</u>	<u>\$ 2,087,830</u>	<u>\$ 9,803,242</u>

City of Birmingham, Michigan

Other Supplemental Information Combining Statement of Revenues, Expenses, and Changes in Net Assets Internal Service Funds Year Ended June 30, 2004

	Equipment	Personal Services	Risk Management	Total
Operating Revenues - Charges to other funds	\$ 2,179,674	\$ 20,479	\$ 3,116,790	\$ 5,316,943
Operating Expenses				
General and administrative	-	42,477	2,775,943	2,818,420
Supplies and other operating expenses	1,171,761	-	-	1,171,761
Depreciation	779,778	-	-	779,778
Total operating expenses	<u>1,951,539</u>	<u>42,477</u>	<u>2,775,943</u>	<u>4,769,959</u>
Operating Income (Loss)	228,135	(21,998)	340,847	546,984
Nonoperating Income (Loss)				
Interest earned	51,367	7,380	17,719	76,466
Loss on sale of capital assets	(23,494)	-	-	(23,494)
Contributions	49,492	-	-	49,492
Net nonoperating income	<u>77,365</u>	<u>7,380</u>	<u>17,719</u>	<u>102,464</u>
Changes in Net Assets	305,500	(14,618)	358,566	649,448
Net Assets - Beginning of year	<u>7,041,296</u>	<u>383,234</u>	<u>1,729,264</u>	<u>9,153,794</u>
Net Assets - End of year	<u>\$ 7,346,796</u>	<u>\$ 368,616</u>	<u>\$ 2,087,830</u>	<u>\$ 9,803,242</u>

City of Birmingham, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2004

	Equipment	Personal Services	Risk Management	Total
Cash Flows from Operating Activities				
Receipts from customers	\$ 2,178,749	\$ -	\$ 3,116,790	\$ 5,295,539
Payments to suppliers	(519,835)	-	(3,130,587)	(3,650,422)
Payments to employees	(635,777)	3,855	-	(631,922)
Net cash provided by (used in) operating activities	1,023,137	3,855	(13,797)	1,013,195
Cash Flows from Capital and Related Financing Activities				
Contributed capital	49,492	-	-	49,492
Purchase of capital assets	(694,986)	-	-	(694,986)
Proceeds from sale of capital assets	76,642	-	-	76,642
Net cash used in capital and related financing activities	(568,852)	-	-	(568,852)
Cash Flows from Investing Activities - Interest received on investments	51,367	7,380	17,719	76,466
Net Increase in Cash and Cash Equivalents	505,652	11,235	3,922	520,809
Cash and Cash Equivalents - Beginning of year	4,248,251	672,192	2,115,933	7,036,376
Cash and Cash Equivalents - End of year	<u>\$ 4,753,903</u>	<u>\$ 683,427</u>	<u>\$ 2,119,855</u>	<u>\$ 7,557,185</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ 4,753,903	\$ 683,427	\$ 2,076,702	\$ 7,514,032
Restricted investments	-	-	43,153	43,153
Total cash and cash equivalents	<u>\$ 4,753,903</u>	<u>\$ 683,427</u>	<u>\$ 2,119,855</u>	<u>\$ 7,557,185</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 228,135	\$ (21,998)	\$ 340,847	\$ 546,984
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	779,778	-	-	779,778
Changes in assets and liabilities:				
Receivables	(925)	-	-	(925)
Other assets	-	-	(30,114)	(30,114)
Accounts payable	7,802	-	16,394	24,196
Accrued and other liabilities	8,347	25,853	(340,924)	(306,724)
Net cash provided by (used in) operating activities	<u>\$ 1,023,137</u>	<u>\$ 3,855</u>	<u>\$ (13,797)</u>	<u>\$ 1,013,195</u>

Noncash Investing, Capital, and Related Financing Activities - During the year, the General Fund and Capital Projects Fund paid \$49,492 for equipment and contributed it to the Equipment Fund.

City of Birmingham, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2004

	Pension Trust Fund	Retiree Health Care	Total
Assets			
Cash and cash equivalents	\$ 1,791,393	\$ 239,879	\$ 2,031,272
Investments:			
U.S. government securities	11,699,112	1,370,834	13,069,946
Stocks	57,531,509	5,675,132	63,206,641
Bonds	15,516,770	1,559,241	17,076,011
Receivables - Accrued interest	420,221	44,603	464,824
Other assets	38,975	14,871	53,846
Total assets	86,997,980	8,904,560	95,902,540
Liabilities - Accounts payable	-	162,505	162,505
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 86,997,980</u>	<u>\$ 8,742,055</u>	<u>\$ 95,740,035</u>

City of Birmingham, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2004

	Pension Trust Fund	Retiree Health Care	Total
Additions			
Investment income:			
Interest and dividends	\$ 2,577,469	\$ 239,228	\$ 2,816,697
Net decline in fair value of investments	7,533,291	649,099	8,182,390
Investment expenses	(469,190)	(57,203)	(526,393)
Total investment income	9,641,570	831,124	10,472,694
Contributions:			
Employer	-	1,471,223	1,471,223
Employee	521,284	168,141	689,425
Total contributions	521,284	1,639,364	2,160,648
Other revenue	87,168	-	87,168
Total additions - Net of investment income	10,250,022	2,470,488	12,720,510
Deductions			
Benefit payments	2,865,235	1,049,600	3,914,835
Refunds of contributions	423,146	-	423,146
Administrative expenses	161,274	2,300	163,574
Total deductions	3,449,655	1,051,900	4,501,555
Net Increase in Net Assets Held in Trust for Pension Benefits	6,800,367	1,418,588	8,218,955
Net Assets Held in Trust for Pension Benefits			
Beginning of year	80,197,613	7,323,467	87,521,080
End of year	<u>\$ 86,997,980</u>	<u>\$ 8,742,055</u>	<u>\$ 95,740,035</u>

Statistical Section

City of Birmingham, Michigan

Fiscal Year	General		Public	
	Government	Percent	Safety	Percent
1994-1995	\$ 3,642,441	14.7	\$ 6,663,465	27.0
1995-1996	3,573,940	17.6	6,258,554	30.9
1996-1997 (2)	3,233,526	14.3	6,557,207	29.1
1997-1998	3,299,170	15.6	6,687,762	31.5
1998-1999	4,026,468	17.2	7,016,085	30.0
1999-2000	3,956,430	16.4	7,475,104	30.9
2000-2001	4,106,070	14.8	7,917,513	28.5
2001-2002	4,256,477	11.3	8,184,850	21.6
2002-2003	4,462,205	12.4	8,684,771	24.1
2003-2004	4,781,522	14.0	8,999,008	31.1
Percentage increase (decrease)				
from 2002-2003 to 2003-2004		7.2%	3.6%	

- (1) This schedule includes expenditures of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund after elimination of operating transfers or residual equity transfers between these funds. This schedule excludes the Expendable Trust Fund through 2001-2002. In 2002-2003, the Expendable Trust Fund has been eliminated.
- (2) Starting in 1997, the general government expenditures for the year ended June 30, 1998 decreased due to the retirement system costs reclassified from the General Fund and charged to the Pension Trust Fund.

**General Governmental Expenditures by Function
Last Ten Fiscal Years (1)**

Solid Waste			Highways and Streets			Community Development		
		Percent			Percent			Percent
\$	2,011,133	8.1	\$	1,515,263	6.1	\$	-	-
	1,472,284	7.3		1,335,589	6.6		703,432	3.5
	1,544,191	6.9		1,812,064	8.0		768,488	3.4
	1,445,323	6.8		1,800,387	8.5		754,864	3.6
	1,115,091	4.8		2,096,660	9.0		1,222,351	5.2
	1,099,130	4.5		1,831,453	7.6		1,145,835	4.7
	1,147,010	4.1		2,175,935	7.8		1,362,024	4.9
	1,205,276	3.2		1,950,418	5.2		1,433,099	3.8
	1,316,938	3.7		2,074,639	5.8		1,414,364	3.9
	1,519,664	5.2		2,268,936	7.8		1,648,463	5.7
	15.4%			9.4%			16.6%	

City of Birmingham, Michigan

<u>Fiscal Year</u>	<u>Public Works</u>	<u>Percent</u>	<u>Contributions</u>	<u>Percent</u>
1994-1995	\$ 2,819,730	11.4	\$ 492,842	2.0
1995-1996	2,641,146	13.0	570,369	2.8
1996-1997 (2)	2,321,002	10.3	766,623	3.4
1997-1998	2,218,734	10.5	853,244	4.0
1998-1999	2,307,851	9.9	713,818	3.0
1999-2000	2,630,614	10.9	761,175	3.1
2000-2001	2,622,375	9.5	888,534	3.2
2001-2002	3,274,428	8.7	840,165	2.2
2002-2003	3,828,632	10.6	866,178	2.3
2003-2004	3,406,619	11.8	681,247	2.4
Percentage increase (decrease) from 2002-2003 to 2003-2004	(11.0%)		(21.4%)	

- (1) This schedule includes expenditures of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund after elimination of operating transfers or residual equity transfers between these funds. This schedule excludes the Expendable Trust Fund.
- (2) Starting in 1997, the general government expenditures for the year ended June 30, 1998 decreased due to the retirement system administrative costs reclassified from the General Fund and charged to the Pension Trust Fund.

**General Governmental Expenditures by Function
Last Ten Fiscal Years (I) (Continued)**

Capital		Percent	Debt		Miscellaneous	Percent	Total
Outlay			Service	Percent			
\$ 6,601,084	26.8		\$ 923,900	3.7	\$ 39,884	0.2	\$ 24,709,742
1,741,484	8.6		1,915,080	9.4	57,517	0.3	20,269,395
3,513,181	15.6		1,988,890	8.8	36,641	0.2	22,541,813
1,469,402	6.8		2,621,919	12.4	63,581	0.3	21,214,386
2,327,506	9.8		2,582,743	11.0	14,255	0.1	23,422,828
2,616,380	10.8		2,647,822	10.9	26,944	0.1	24,190,887
3,928,017	14.2		3,572,309	12.9	21,587	0.1	27,741,374
13,407,326	35.4		3,277,603	8.7	-	-	37,829,642
13,361,958	37.1		871,564	2.4	-	-	36,881,249
4,180,968	14.4		1,464,514	5.1	-	-	28,950,941
(68.7%)			68.0%		-		

City of Birmingham, Michigan

Fiscal Year			Licenses and Permits	
	Taxes	Percent	Permits	Percent
1994-1995	\$ 11,461,089	56.3	\$ 523,070	2.6
1995-1996	13,643,969	62.4	500,245	2.3
1996-1997	13,867,464	62.6	619,728	2.7
1997-1998	14,457,595	62.5	700,883	3.0
1998-1999	15,005,521	62.5	1,098,905	4.6
1999-2000	15,197,625	61.2	1,336,388	5.4
2000-2001	16,678,578	59.3	2,028,712	7.2
2001-2002	18,166,178	65.5	1,697,747	6.1
2002-2003	16,157,523	60.8	1,554,182	5.8
2003-2004	19,311,096	66.5	1,788,000	6.2
Percentage increase (decrease)				
from 2002-2003 to 2003-2004		19.5%	15.0%	

- (1) This schedule includes revenues of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund after elimination of operating transfers or residual equity transfers between these funds. This schedule excludes the Expendable Trust Fund.

**General Governmental Revenues by Source
Last Ten Years (1)**

Fines and Forfeitures		Use of Money and Property		Federal Grants	
	Percent		Percent		Percent
\$ 1,086,257	5.4	\$ 1,083,686	5.4	\$ 330,735	1.6
1,236,825	5.7	1,244,841	5.7	115,976	0.5
1,339,972	6.1	1,259,198	5.7	167,216	0.8
1,455,777	6.3	1,168,027	5.0	168,104	0.7
1,371,188	6.3	1,101,504	4.5	255,884	1.0
1,434,140	5.8	1,160,579	4.5	139,387	0.5
1,561,387	5.6	2,091,827	7.4	86,935	0.3
1,416,836	5.1	867,912	3.1	111,135	0.4
1,310,556	4.9	379,343	1.4	936,125	3.5
1,268,379	4.4	360,197	1.2	358,157	1.2
(3.2%)		(5.0%)		(61.7%)	

City of Birmingham, Michigan

Fiscal Year	Inter- governmental	Percent	Charges for Services	Percent
1994-1995	\$ 2,818,519	13.8	\$ 2,967,513	14.5
1995-1996	2,809,847	12.9	2,245,804	10.3
1996-1997	3,056,642	13.8	1,783,362	8.1
1997-1998	3,341,103	14.5	1,811,568	7.9
1998-1999	3,386,530	14.1	1,566,844	6.5
1999-2000	3,640,986	14.7	1,812,814	7.3
2000-2001	3,538,515	12.6	1,972,657	7.0
2001-2002	3,368,671	12.1	1,987,525	7.2
2002-2003	3,719,633	14.0	2,300,941	8.7
2003-2004	3,157,699	10.9	2,441,215	8.4
Percentage increase (decrease) from 2002-2003 to 2003-2004	(15.1%)		6.1%	

(1) This schedule includes revenues of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund after elimination of operating transfers or residual equity transfers between these funds. This schedule excludes the Expendable Trust Fund.

**General Governmental Revenues by Source
Last Ten Fiscal Years (I) (Continued)**

	Other	Percent	Total
\$	77,443	0.4	\$ 20,348,312
	53,003	0.2	21,850,510
	41,469	0.2	22,135,051
	33,333	0.1	23,136,390
	124,879	0.5	23,911,255
	156,546	0.6	24,878,465
	162,719	0.6	28,121,330
	121,188	0.4	27,737,192
	235,449	0.9	26,593,752
	346,684	1.2	29,031,427
	47.2%		

City of Birmingham, Michigan

General Governmental Tax Revenues by Source Last Ten Fiscal Years

Property Taxes

Fiscal Year	Operating	Solid Waste	425 Economic Development	Debt	Special Assessments	Total Taxes
1994-1995	\$ 8,920,276	\$ 1,374,470	\$ -	\$ 1,054,200	\$ 112,143	\$ 11,461,089
1995-1996	9,677,995	1,365,898	-	2,420,755	179,321	13,643,969
1996-1997	10,220,133	1,038,875	-	2,391,415	217,041	13,867,464
1997-1998	10,622,473	1,091,715	-	2,415,222	328,185	14,457,595
1998-1999	11,133,914	1,127,886	-	2,395,952	347,769	15,005,521
1999-2000	11,251,990	1,151,050	-	2,479,440	315,145	15,197,625
2000-2001	11,977,329	1,042,931	-	3,341,393	316,925	16,678,578
2001-2002	13,317,164	1,055,406	-	3,470,758	322,850	18,166,178
2002-2003	14,066,321	1,244,237	11,763	653,516	163,417	16,139,254
2003-2004	16,113,980	1,473,140	9,885	1,484,741	229,350	19,311,096

City of Birmingham, Michigan

Fiscal Year	Total Tax		Percent of	
	Levy (2)	Current Tax Collections	Current Taxes Collected	Delinquent Tax Collections
1994-1995	\$ 12,882,962	\$ 12,347,201	95.84	\$ 466,365
1995-1996	14,979,658	14,311,925	95.54	570,524
1996-1997	15,058,112	14,544,910	96.59	417,678
1997-1998	16,622,157	15,881,143	95.54	562,258
1998-1999	17,248,712	16,753,298	97.13	480,551
1999-2000 (3)	17,955,509	17,368,368	96.73	532,363
2000-2001	19,770,668	18,910,885	95.65	684,674
2001-2002	21,277,771	20,428,804	96.01	754,649
2002-2003 (4)	22,240,872	21,418,566	96.30	742,393
2003-2004	24,877,179	24,045,911	96.66	752,087

(1) Information not available for some years

(2) Includes library tax levy for all years

(3) Beginning in fiscal year 1999-2000, the total tax levy includes the supplemental warrant for Michigan Public Act 189 properties. These are properties that are leased from the City of Birmingham.

(4) Beginning in fiscal year 2002-2003, the total tax levy includes taxes levied against properties subject to Michigan Public Act 425 which have been conditionally transferred from Bloomfield Township to the City of Birmingham. It also includes adjustments/corrections to taxable value approved by the Board of Review, Michigan Tax Tribunal, etc.

**Property Tax Levies and Collections
Last Ten Fiscal Years**

Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy	Outstanding Delinquent Taxes (I)	Ratio of Delinquent Taxes to Total Tax Levy (I)
\$ 12,813,566	99.46	\$ 37,798	0.29
14,882,449	99.35	-	-
14,962,588	99.37	62,368	0.41
16,443,401	98.92	87,396	0.53
17,233,849	99.91	65,659	0.38
17,900,731	99.69	95,656	0.53
19,595,559	99.11	77,201	0.39
21,183,453	99.56	58,755	0.28
22,160,959	99.64	79,913	0.36
24,797,998	99.68	79,181	0.32

City of Birmingham, Michigan

Fiscal Year	County Equalized Valuation	State Equalized Valuation	City Assessed Valuation	Percent of True Value (1)
1994-1995	\$ 975,050,500	\$ 975,050,500	\$ 975,050,500	50
1995-1996 (2)	1,018,968,105	1,018,968,105	1,018,968,105	50
1996-1997 (2)	1,095,289,075	1,095,289,075	1,095,289,075	50
1997-1998 (2)	1,185,994,910	1,185,994,910	1,185,994,910	50
1998-1999 (2)	1,293,125,498	1,293,125,498	1,293,125,498	50
1999-2000 (2)	1,443,416,735	1,443,416,735	1,443,416,735	50
2000-2001 (2)	1,618,703,090	1,618,703,090	1,618,703,090	50
2001-2002 (2)	1,821,297,905	1,821,297,905	1,821,297,905	50
2002-2003 (2)	2,067,222,990	2,067,222,990	2,067,222,990	50
2003-2004	2,454,368,810	2,454,368,810	2,454,368,810	50

Note: All valuations are taken from the original warrant for each year and do not reflect any supplemental warrants or Board of Review/Tax Tribunal adjustments.

- (1) In accordance with the 1970 State of Michigan Constitution, the State Equalized Value is 50 percent of appraised or estimated value.
- (2) On March 15, 1994, the voters of the state of Michigan approved Proposal A, which includes significant changes to Section 3 of Article IX of the State Constitution. Starting in 1995, the value against which taxes will be spread has changed from assessed value to taxable value.

**Assessed Valuation History
Last Ten Fiscal Years**

Real Taxable Valuation	Personal Taxable Valuation	Total Taxable Valuation (2)	Taxable Valuation as Percentage of Assessed Valuation
N/A	N/A	N/A	N/A
\$ 947,722,890	\$ 45,004,300	\$ 992,727,190	97.4
976,196,677	47,830,300	1,024,026,977	93.5
1,028,004,614	49,488,090	1,077,492,704	90.9
1,079,245,416	50,787,690	1,130,033,106	87.4
1,140,397,208	60,363,250	1,200,760,458	83.2
1,224,105,785	59,423,980	1,283,529,765	79.3
1,312,779,883	60,179,340	1,372,959,223	75.4
1,433,723,668	58,533,820	1,492,257,488	72.2
1,540,973,679	60,481,400	1,601,455,079	65.2

City of Birmingham, Michigan

Fiscal Year	Charter Operating Millage	Refuse Millage	Library Millage	Debt Millage	Total City Millage	Oakland	
						County Millage	Community College Millage
1994-1995 (1)	9.84	1.41	1.30	0.67	13.22	4.95	0.85
1995-1996	11.49	1.37	1.29	0.93	15.08	5.28	1.65
1996-1997	11.54	1.01	1.28	0.87	14.70	5.18	1.65
1997-1998 (2)	12.29	1.01	1.28	0.85	15.43	5.15	1.65
1998-1999 (3)	12.26	1.00	1.26	0.75	15.27	4.99	1.65
1999-2000	11.66	0.96	1.58	0.75	14.95	4.98	1.63
2000-2001	11.53	0.82	1.68	1.37	15.40	4.97	1.61
2001-2002	12.02	0.77	1.64	1.06	15.49	4.96	1.60
2002-2003	11.50	0.83	1.54	1.00	14.87	5.25	1.61
2003-2004 (4)	11.61	0.93	1.57	1.46	15.57	5.24	1.60

Note: All rates are expressed in dollars per \$1,000 of taxable valuation. City general operating tax rate charter limit equals \$20.00 per \$1,000 of taxable valuation.

- (1) Beginning in 1994-1995, a portion of the charter operating millage is allocated to the CSO obligation Debt Service Fund (\$400,000 in 1996).
- (2) Beginning in 1997-1998, a portion of the charter operating millage is allocated to the Water Supply System Fund for water main repair and replacement.
- (3) Beginning in 1998-1999, a portion of the charter operating millage is allocated to the Sewage Disposal Fund for sewer relief projects.
- (4) Beginning in 2003-2004, a portion of the charter operating millage is allocated to the Sewage Disposal Fund for the North Arm Drain.

General Tax Information for 2003 Tax Year

	City, Intermediate School, Community College, State Education Tax, and One- half School Taxes and School Debt	County and One-half School Taxes, and Transportation
Billed	July 1	December 1
Due	September 2	February 17
Delinquent	March 1	March 1
Penalty	.75% per month after September 2	3% after February 17

**Property Taxes Rates
All Direct and Overlapping Governments
Last Ten Fiscal Years**

County		School Millage		Total	
Intermediate School Millage	Total County Millage	Homestead	Non- homestead	Homestead	Non- homestead
2.13	7.93	20.24	24.00	41.39	45.15
2.13	9.06	20.07	24.00	44.21	48.14
2.13	8.96	19.77	24.00	43.43	47.66
2.13	8.93	19.01	24.00	43.37	48.36
2.12	8.76	20.01	25.67	44.04	49.70
2.10	8.71	19.70	25.45	43.36	49.11
2.08	8.66	18.90	25.45	42.96	49.51
3.45	10.01	18.48	25.45	43.98	50.95
3.42	10.28	17.75	25.45	42.90	50.60
3.40	10.24	16.43	24.55	42.24	50.36

City of Birmingham, Michigan

Principal Taxpayers Valuation as of July 31, 2004

Taxpayer	Principal Product or Service	Taxable Valuation	Percent of Taxable Valuation
Palladium/Related retail	Retail	\$ 18,617,500	1.09
Paul Johnson	Apartments, commercial	16,503,990	0.96
Geoff Hockman & Associates	Hotel, office, residential	15,117,280	0.88
Fuller Central Park Prop.	Office, retail	14,825,340	0.86
DTE Energy*	Electric utility	9,512,880	0.55
James Esshaki/J.P. Equities LLC	Office, retail	8,154,690	0.48
Associates of 555	Office, retail, parking, apartments	6,453,890	0.38
Comcast Cablevision	Office	6,236,490	0.36
Rosso Development	Office, residential, apartments	5,282,780	0.31
Heron Development, LLC	Apartments	4,825,090	0.28
Kroger	Retail	4,682,840	0.27
Prudential Investments	Office	4,597,410	0.27
JFK Investments	Office, retail	4,323,850	0.25
Mooney Oil Company	Office	4,204,350	0.25
National City Bank	Office	4,016,280	0.23
Dart Energy Corp.	Office	3,495,680	0.20
Borders Bookstore	Retail	3,479,360	0.20
305 East Maple, LLC	Office	3,194,910	0.19
Philip Stevens Building Co.	Office, retail	2,962,090	0.17
Stuart Frankel	Office, apartments	2,870,650	0.17
Total 2004 taxable valuation of 20 largest taxpayers		143,357,350	8.36
Total 2004 taxable valuation of all other taxpayers		1,571,829,570	91.64
Total 2004 taxable valuation of all taxpayers		<u><u>\$ 1,715,186,920</u></u>	<u><u>100.00</u></u>

* This taxpayer is appealing its personal property valuations.

City of Birmingham, Michigan

Special Assessment Billings and Collections Last Ten Fiscal Years

Fiscal Year	Special Assessment Billings	Special Assessments Collected (1)	Total Outstanding Special Assessments
1994-1995	\$ 637,638	\$ 593,466	\$ 700,809
1995-1996	597,419	758,933	586,315
1996-1997	614,829	808,285	666,350
1997-1998	746,807	895,377	767,697
1998-1999	641,398	878,497	1,054,646
1999-2000	900,514	832,875	880,415
2000-2001	747,291	1,018,786	556,064
2001-2002	752,661	1,014,242	805,862
2002-2003	742,397	856,690	634,400
2003-2004	851,306	962,880	656,097

(1) Includes collections of delinquent special assessments transferred to the City tax rolls

The County Delinquent Tax Revolving Fund reimburses the City 100 percent of delinquent special assessments, as well as delinquent real taxes.

City of Birmingham, Michigan

Computation of Legal Debt Margin June 30, 2004

2003 State Equalized Valuation	<u>\$ 2,454,368,810</u>
Debt limit (1) (10 percent of State Equalized Valuation) (2)	\$ 245,436,881
Debt applicable to limitation:	
Total bonded and contractual debt	61,883,156
Less deductions allowed by law - Combined sewer overflow abatement project	<u>17,952,950</u>
Net debt applicable to debt limit	<u>43,930,206</u>
Legal debt margin	<u>\$ 201,506,675</u>

(1) Debt limit set forth in Section 4A, Act 279 of 1909 (Home Rule City Act)

(2) Act No. 202, P.A. 1943 as amended by Act No. 42, P.A. 1960 (defining assessed valuation)

City of Birmingham, Michigan

Fiscal Year	Population	Assessed/Taxable Value (3)	Gross Bonded Debt	Less Debt Service Fund (1)
1994-1995	19,997	\$ 975,050,500	\$ 23,425,000	\$ 63,866
1995-1996 (3)	19,997	992,727,190	44,737,200	902,830
1996-1997	19,997	1,024,026,977	40,925,980 (4)	1,385,095
1997-1998	19,997	1,077,492,704	39,058,566	1,268,285
1998-1999	19,997	1,130,033,106	37,179,729	1,143,865
1999-2000	19,997	1,200,760,458	47,615,566	1,034,733
2000-2001	19,291	1,283,529,765	46,327,562	988,854
2001-2002	19,291	1,372,959,223	49,018,903	1,225,960
2002-2003	19,291	1,492,257,488	65,172,187 (5)	10,079 (6)
2003-2004	19,291	1,601,455,079	61,806,980	109,710

(1) Amount available for repayment of general obligation bonds

(2) These amounts include the general obligation bonds that are being repaid from the Automobile Parking System Fund.

(3) On March 15, 1994, the voters of the State of Michigan approved Proposal A, which includes significant changes to Section 3 of Article IX of the State Constitution. Starting in 1995, the value against which taxes will be spread has changed from assessed value to taxable value.

(4) Beginning in fiscal year 1996-1997, this amount does not include revenue bonds or contractual obligations that are being repaid from Enterprise Funds (user charges).

(5) In fiscal year 2002-2003, general obligation bonds for Parks and Recreation were issued in the amount of \$15.7 million. Also in 2002-2003, the water revenue bonds were called.

(6) In accordance with GASB 34, several bond issues are now accounted for in the Sewage Disposal Fund rather than the Debt Service Funds. These bond issues include the 2000 Sewer Improvement bonds, the CSO obligations, the George W. Kuhn Drain bonds, and the North Arm Drain bonds.

**Ratio of Net General Obligation Bonded Debt to Assessed/Taxable Value
and Net General Obligation Bonded Debt per Capital
Last Ten Fiscal Years**

Debt Payable from Enterprise Revenues (2)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed/ Taxable Value	Net Bonded Debt per Capita
\$ 14,158,535	\$ 9,202,599	0.94	\$ 460
13,304,583	30,529,787	3.08	1,527
10,024,487	29,516,398	2.88	1,476
9,311,928	28,478,353	2.64	1,424
8,579,714	27,456,150	2.43	1,373
7,822,326	38,758,507	3.23	1,938
7,020,000	38,318,708	2.99	1,986
6,085,000	41,707,943	3.04	2,162
5,045,000	60,117,108	4.03	3,116
3,925,000	57,772,270	3.61	2,995

City of Birmingham, Michigan

Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Governmental Expenditures Last Ten Fiscal Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
1994-1995	\$ 348,155	\$ 575,745	\$ 923,900	\$ 24,709,742	3.74
1995-1996	540,824	1,374,256	1,915,080	20,269,395	9.45
1996-1997	531,122	1,457,768	1,988,890	22,541,813	8.82
1997-1998	1,154,855	1,464,064	2,618,919	21,214,386	12.35
1998-1999	1,146,623	1,433,543	2,580,166	23,422,828	11.02
1999-2000	1,022,000	1,398,258	2,420,258	24,190,887	10.00
2000-2001	1,644,451	1,907,780	3,552,231	27,741,374	12.80
2001-2002	1,557,567	1,716,041	3,273,608	37,829,642	8.65
2002-2003 (1)	1,522,332	2,054,692	3,577,024	36,881,249	9.70
2003-2004 (2)	2,237,218	2,517,317	4,754,535	28,950,941	16.42

- (1) Beginning in fiscal year 2002-2003, the Debt Service Funds are no longer used to record the debt service expenditures for the CSO Obligations, the George W. Kuhn Drain bonds, and the 2000 Sewer Improvement bonds. According to GASB No. 34, these payments are now being recorded in the Sewage Disposal Fund. As a result of the debt service payments being tax supported, they are included in the principal and interest amounts above.
- (2) Debt Service payments for the North Arm Drain bonds began in fiscal year 2003-2004. These bonds are tax-supported contractual obligations recorded in the Sewage Disposal Fund.

Note: This schedule includes expenditures of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund. General obligation bonds reported in the Enterprise Funds with government commitment have been excluded.

City of Birmingham, Michigan

Computation of Direct and Overlapping Bonded Debt General Obligation Bonds June 30, 2004

Jurisdiction	Net General Obligation Bonded Debt Outstanding	Percent Applicable to Government	Amount Applicable to Government
Direct - City of Birmingham	\$ 57,772,270 (1)	100.00	\$ 57,772,270
Overlapping			
Birmingham School District	242,590,000	40.30	97,763,770
Pontiac School District	22,904,000	0.18	41,227
Oakland County	73,460,291	3.01	2,211,155
Oakland County Intermediate School District	8,275,000	3.02	249,905
Oakland County Community College	<u>12,325,000</u>	3.03	<u>373,448</u>
Total overlapping debt	<u>359,554,291</u>		<u>100,639,505</u>
Total direct and overlapping debt	<u>\$ 417,326,561</u>		<u>\$ 158,411,775</u>

(1) See "ratio of net general obligation bonded debt to assessed/taxable value and net general obligation bonded debt per capita" (also in this section) for calculation of this amount.

City of Birmingham, Michigan

Revenue Bond Coverage Water Fund Last Ten Fiscal Years

Fiscal Year	Gross Revenue (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1994-1995	\$ 2,183,523	\$ 1,600,147	\$ 583,376	\$ 200,000	\$ 64,025	\$ 264,025	2.21
1995-1996	2,448,564	1,535,943	912,621	200,000	115,550	315,550	2.89
1996-1997	2,414,831	1,406,708	1,008,123	200,000	103,050	303,050	3.33
1997-1998	2,402,501	1,742,852	659,649	200,000	94,300	294,300	2.24
1998-1999	2,776,298	1,944,221	832,077	200,000	86,500	286,500	2.90
1999-2000	2,508,952	1,773,321	735,631	200,000	78,500	278,500	2.64
2000-2001	2,207,898	1,635,065	572,833	200,000	70,000	270,000	2.12
2001-2002	2,633,119	1,928,922	704,197	200,000	61,500	261,500	2.69
2002-2003 (3)	2,702,271	2,443,291	258,980	1,400,000	52,750	1,452,750	N/A
2003-2004	2,642,535	2,513,540	128,995	-	-	-	N/A

(1) Total operating revenues

(2) Total operating expenses exclusive of depreciation and amortization

(3) Revenue bonds were called; outstanding principal balance of \$1,400,000 paid in full June 2003

City of Birmingham, Michigan

Demographic Statistical Data Last Ten Fiscal Years

Fiscal Year	Population (2)	Average Income Per Household (1)	Median Age (2)	Number of Households (1)	School Enrollment (3)	Unemploy- ment Rate (Percent) (4)
1994-1995	19,997	\$ *	37.40	9,084	\$ *	2.5
1995-1996	19,997	*	37.40	9,307	*	2.1
1996-1997	19,997	65,649	37.40	9,307	*	1.9
1997-1998	19,997	*	37.40	9,383	*	1.6
1998-1999	19,997	78,998	37.40	9,383	7,530	1.4
1999-2000	19,997	*	37.40	9,371	7,655	1.4
2000-2001	19,291	80,861	39.00	9,131	7,761	1.2
2001-2002	19,291	*	*	9,241	7,743	2.1
2002-2003	19,291	*	*	9,241	7,835	2.7
2003-2004	19,291	*	*	9,242	7,949	2.8

(1) Estimates - Southeastern Michigan Council of Governments (SEMCOG)

(2) U.S. Census Bureau. Data for years 1993-2000 is as of 1990. Data for 2001-2004 is as of 2000.

(3) Birmingham Community Schools - Public schools only. Includes all K-12 students including out-of-district

(4) Data is from Michigan Department of Career Development (MDCD) Office of Labor Market Information and reflects the annual average as of December 31. It includes any revisions as of March 2004.

* Information is not available for some years. Birmingham is too small to be included in most tables that list detailed data. Nearly all detailed tables are for cities with populations of 25,000 or more.

City of Birmingham, Michigan

Property Value, Construction, and Bank Deposits Last Ten Fiscal Years

Fiscal Year	Construction		Bank Deposits (1) \$(000)	Property Value (Assessed)		
	Number of Units	Value		Commercial	Industrial	Residential
1994-1995	743	\$ 26,242,249	\$ 576,985	\$ 256,146,600	\$ 19,273,500	\$ 699,630,400
1995-1996	722	23,292,296	668,114	249,702,050	19,032,720	750,223,335
1996-1997	778	29,758,769	731,570	265,068,555	18,783,960	811,436,560
1997-1998	836	40,068,922	726,385	286,716,510	19,890,050	879,388,350
1998-1999	921	58,680,622	738,262	292,653,090	16,543,970	983,928,438
1999-2000	844	43,450,820	772,297	305,236,350	20,294,820	1,117,885,565
2000-2001	866	76,939,552	782,878	315,509,990	22,266,580	1,280,926,520
2001-2002	826	62,541,870	851,298	330,017,200	22,456,240	1,468,824,465
2002-2003	849	58,216,724	948,028	374,838,960	23,555,950	1,668,828,080
2003-2004	937	98,978,649	964,545	620,560,940	30,753,760	1,803,054,110

(1) The deposit information is from FDIC data contained in branch directory and summaries of deposits; Decision Research Sciences; Ambler, Pennsylvania. For 1992, deposit information was obtained from data contained in the 1992 Branches of Michigan, Sheshunoff. 1998 and 1999 deposit information was obtained from the Bank & Thrift Branch Office Data Book, Central Region, 1997 and 1998, respectively. The 2000-2004 deposit information was from www.fdic.gov FDIC/OTS summary of deposits (data as of June 30, 1999, June 30, 2000, June 30, 2001, June 30, 2002, and June 30, 2003, respectively).

City of Birmingham, Michigan

Miscellaneous Statistical Data

Original Incorporation	January 8, 1864	Village Form
Second Charter	June 2, 1885	Village Form
Third Charter	1917	Manager, Trustee Form
First City Charter	1927	Commission Form
Current Home Rule City Charter	April 3, 1933	Manager, Commission Form

Area incorporated - 4.73 square miles

Streets and Alleys

Miles of streets:	84.32
Major	21.87
Local	62.45
Sidewalks in miles	128.69
Bridges	9

Building Data

2003-2004 building permits	937
2003-2004 construction value	\$ 98,978,649

2004-2005 Fire Protection (Budgeted Positions)

Stations	2
Regular firefighters (not including chiefs)	35
Volunteers	15

2004-2005 Police Protection (Budgeted Positions)

Precincts	1
Regular police (Not including chiefs)	33
Auxiliary	14

2004-2005 Number of Budgeted Employees

Full-time personnel	188
Part-time personnel	77

Population Data

1970 federal census	26,170
1980 federal census	21,689
1990 federal census	19,997
2000 federal census	19,291

Water Distribution System

Customers	8,296
Meters	8,523
Miles of water mains	100.24
Fire hydrants:	
City-owned	779
Privately owned	-
Total number of line gate valves	1,272
Storage tanks - 500,000 gal. each	2

Sewage Collection System

Miles of sanitary sewers	117.09
--------------------------	--------

Parking System

Parking structures	5
Parking-metered spaces	1,267
Total public parking spaces	4,855

Election Data

Registered voters, Nov. 2003	16,274
Votes cast, Nov. 2003 election	4,586
Percent voting	28%
Registered voters, June 30, 2004	16,153

Library 2003-2004

Registered patrons	40,029
Book collections	135,132
Audiovisual collections	51,860
Items circulated	426,007
Reference questions	93,809
Patron visits	320,047
Circulation per capita (1)	13.9
Program attendance	22,819
Computer resource usage	1,014,777

(1) Based on population for the service area of the library: Birmingham, Beverly Hills, and Bingham Farms

November 30, 2004

Honorable Mayor and Members
of the City Commission
City of Birmingham
151 Martin
Birmingham, MI 48012-3001

Dear Mayor and Commission Members:

We have recently completed our audit of the City's financial statements for the year ended June 30, 2004. As a result of our audit, and in addition to Our Comprehensive Annual Financial Report, we offer the following comments for your consideration.

STATE SHARED REVENUE

The future of State shared revenues received by the City remains fragile. The State did pass the tobacco tax increase and eliminated state shared revenue to counties, which will help balance the budget. However, absent strong real job growth and continued economic recovery increasing income taxes and single business tax, revenue sharing cuts remain a possibility in future years.

RETIREE HEALTH CARE BENEFITS

The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government wide financial statements, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

The new pronouncement will require all local units to obtain a valuation of the obligation to provide retiree health care benefits. The City of Birmingham already has a head start, in that actuarial valuations have historically been performed for its retiree health plan, and the City has been pre-funding this obligation through its retiree health care fund. Because the majority of other local units have not been funding the retiree health care on an actuarial basis, currently their financial statements are not necessarily comparable to Birmingham's. This change will cause all other local units to measure the obligation for retiree health care on the same approximate basis, and therefore will help in comparing financial statements between communities. This statement is effective for the fiscal year beginning July 1, 2008.

We would like to thank the Commission for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like our assistance in their implementation, please contact us.

Very truly yours,

PLANTE & MORAN, PLLC

A handwritten signature in black ink that reads "Joseph C. Heffernan". The signature is written in a cursive, flowing style.

Joseph C. Heffernan